

Important Notice

1. The board of directors (“BoD”), board of supervisors (“BoS”), directors, supervisors and senior executives of Hainan Airlines Company Limited (“the Company”) hereby guarantee to the best of their knowledge that there is no significant omission, fictitious description or serious misleading of information and they will take both individual and joint responsibilities for the truthfulness, accuracy and completeness of the content.

2. Mr. Yang Hui, independent director, was absent because of his illness. He entrusted Mr. Chen Rijin, independent director, to vote for him.

3. Pricewaterhousecoopers Zhongtian issued the standard unqualified Auditors’ Report for the Company.

4. Mr. Zhu Yimin, Chairman of the Company, Mr. Liu Dan, the principal in charge of accounting, Mr. Li Tie, the principal of the accounting department, hereby declare: we guarantee the authenticity and completeness of the financial report in this report.

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I. Company Profile

1. Registered Chinese name: 海南航空股份有限公司 (Abbreviation: 海南航空)
Registered English name: Hainan Airlines Co., Ltd (Abbreviation: HNA)
2. Legal Representative: Zhu Yimin
3. Information of the Secretary of BoD and the Representative of Stock Affairs
Secretary of BOD: Zhang Shanghui
Tel: 0898-66739961
Fax: 0898-66739960
E-mail: sh_zhang@hnair.com
Address: Haihang Development Building, 29 Haixiu Road, Haikou, Hainan Province
Representative of Stock Affairs: Lv Guangwei
Tel: 0898-66739961
Fax: 0898-66739960
E-mail: gw_lv@hnair.com
Address: Haihang Development Building, 29 Haixiu Road, Haikou, Hainan Province
4. Registered Address: 168 Airport West Road, Haikou, Hainan Province
Office Address: Haihang Development Building, 29 Haixiu Road, Haikou, Hainan Province
Post Code: 570206
Website: <http://www.hnair.com>
Email: webmaster@hnair.com
5. Designated Newspapers for Information Disclosure:
China Securities News, Shanghai Securities News, Wen Wei Po (Hong Kong), Securities Times
The website appointed by China Securities Regulatory Commission to release the annual report: <http://www.sse.com.cn>
Annual Report Available at: Office of Secretary of BOD of the Company
6. Stock Exchange for Listing of the Company: Shanghai Stock Exchange
Stock Name: Hainan Airlines Stock Code: 600221
Stock Name: HNA B share Stock Code: 900945
7. Other Related Information
First Registration Date of the Company: October 18, 1989

First Registration Place of the Company: Haikou

Business License Number: Qi Gu Qiong Zong Zi No. 008368

Tax Registration Number: 1150805791

Domestic Accounting Firm Engaged by the Company: PricewaterhouseCoopers
Zhong Tian CPAs Co., Ltd

Office address: 11/F, PWC Center, 202 Hubin Road, Shanghai, PRC

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II. Financial Highlights

1. Key fiscal Data in the Report Period

Monetary unit: RMB 1,000 Yuan

Item	Amount
Operating profit	587,380
Total profit	713,344
Net profit attributable to shareholders of listed company	651,387
Net profit after non-recurring gains and losses attributable to shareholders of listed company	593,982
Net cash flow from operating activities	2,909,106

2. Non-recurring gains and losses

Monetary Unit: RMB 1,000 Yuan

Non-recurring gains and losses	Amount
Gains/losses from disposal of non-current assets	1,786
Net gains/losses from non-operation businesses except for above items	124,178
Other non-recurring gains and losses	-11,620
Total	114,344

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3. Key Fiscal Data and Financial Index by the End of Each Accounting Period in the Past Three Years

Item	2007	2006		Increase/Decrease (%)	2005
		After Adjustment	Before Adjustment		
Operating revenue (1,000 Yuan)	13,556,798	12,774,728	12,774,728	6.12	10,159,183
Total Profit (1,000 Yuan)	713,344	198,182	201,687	259.94	-218.698
Net profit attributable to shareholders of listed company (1,000 Yuan)	651,387	166,755	181,602	290.63	-215,818
Net profit after non-recurring gains and losses attributable to shareholders of listed company (1,000 Yuan)	593,982	107,168	-57,598	454.25	-287,106
Basic earnings per share (Yuan)	0.18	0.06	0.05	207.53	-0.30
Diluted earnings per share (Yuan)	0.18	0.06	0.05	207.53	-0.30
Basic earnings per share after non-recurring gains and losses (Yuan)	0.17	0.03	-0.02	466.66	-0.39
Fully diluted ROE (%)	8.50	2.38	3.00		-7.91
Weighted average ROE (%)	8.88	5.65	6.00		-16.15
Fully diluted ROE after non-recurring gains and losses (%)	7.70	2.10	-1.00		-10.52
Weighted average ROE after non-recurring gains and losses (%)	8.00	5.65	-2.00		-22.08
Net cash flow from operating activities (1,000 Yuan)	2,909,106	4,999,873	4,967,734	-41.82	3,013,252
Net cash flow from operating activities per share (Yuan)	0.82	1.42	1.41	-41.82	4.13

Item	End of 2007	End of 2006		Increase/Decrease (%)	End of 2005
		After Adjustment	Before Adjustment		
Total Assets (1,000 Yuan)	39,839,946	35,747,416	35,728,869	11.45	30,690,977
Shareholder's Equity (1,000 Yuan)	8,435,434	7,781,843	6,990,594	8.40	2,712,976
Net assets per share attributable to shareholders of listed company (Yuan)	2.17	1.99	1.98	9.05	3.74



III. Changes in Share Capital and Particulars about Shareholders

I. Changes in Share Capital

1. Changes in Shares

Unit: Share

Item	Before Change		Increase/Decrease			After Change	
	Quantity	Percentage	New Issue	Others	Subtotal	Quantity	Percentage (%)
I. Shares with trading restriction							
1. State-owned share	16,575,668	0.5		-16,575,668	-16,575,668	0	0
2. State-owned legal person share							
3. Other domestic share	2,834,250,105	80.3		-711,210,589	-711,210,589	2,123,039,516	60.14
Incl.:							
Domestic legal-person share	2,834,250,105	80.3		-711,210,589	-711,210,589	2,123,039,516	60.14
Domestic natural-person share							
4. Foreign Share							
Incl.:							
Foreign legal-person share							
Shares held by foreign natural person							
Total shares with trading restriction	2,850,825,773	80.8		-727,786,257	-727,786,257	2,123,039,516	60.14
II. Shares without trading restriction							
1. A Share	494,703,827	14		727,786,257	727,786,257	1,222,490,084	34.62
2. B Share	184,723,201	5.2		0	0	184,723,201	5.24
3. Shares listed overseas							
4. Others							
Total shares without trading restrictions	679,427,028	19.2		727,786,257	727,786,257	1,407,213,285	39.86
III. Total Shares	3,530,252,801	100				3,530,252,801	100

2. Changes in share with trading restriction

Shareholder	Amount of Shares with Trading Restriction at the Year Beginning	Amount of Shares Released from Trading Restriction	Increased Amount of Shares with Trading Restriction	Amount of Shares with Trading Restriction at the Year End	Reason of Trading Restriction	Releasing Date of Shares with Trading Restriction
Grand China Air Co., Ltd.	1,703,023,339	0	84,704	1,703,108,403	Promise of G Share Reform	Sept. 29 of 2009

Haikou Meilan International Airport Co., Ltd.	431,424,451	176,512,640	0	176,512,640 78,399,171	Promise of G Share Reform	Sept. 29 of 2008 Sept. 29 of 2009
Changjiang Leasing Co., Ltd.	287,616,301	176,512,640	0	111,103,661	Promise of G Share Reform	Sept. 29 of 2008
Hainan Jiaxin Investment Management Co., Ltd.	230,093,041	176,512,640	0	53,580,401	Promise of G Share Reform	Sept. 29 of 2008
Haihang Industrial Holding Co., Ltd.	143,808,150	143,808,150	0	0		
Hainan Taiheng Industrial Co., Ltd.	9,587,210	9,587,210	0	0		
Hainan Jincheng State-owned Property Administration Co., Ltd.	16,575,668	16,575,668	0	0		
HNA Group Co., Ltd.	6,212,512	6,212,512	0	0		
China International Travel Agency	6,212,512	6,212,512	0	0		
Beijing Tianye Commercial & Trading Head Company	4,141,675	4,141,675	0	0		
Guoji Finance Co., Ltd.	3,106,256	3,106,256	0	0		
China Education Trust & Investment Co., Ltd.	2,847,401	2,847,401	0	0		
Guotai Junan Securities Co., Ltd.	1,863,754	1,863,754	0	0		
Hainan Baolu International Flavor & Fragrance Co., Ltd.	1,242,502	1,242,502	0	0		
Nantong Shouchuang Investment Co., Ltd.	993,235	993,235	0	0		
Haikou Nanyang Tourist Development Co., Ltd.	724,793	724,793	0	0		
Haikou Hui Luo Information Consultant Co.	270,000	270,000	0	0		
Hainan Zhongfang Yingcheng Real Estate Development Co., Ltd.	207,084	207,084	0	0		
Hainan Danzhou Second Construction & Engineering Co., Ltd.	144,959	144,959	0	0		
Hainan Jubang Science & Technology Co., Ltd.	103,542	103,542	0	0		
Haikou Huahai Pawn Co., Ltd.	103,542	103,542	0	0		
Yangpu Sandeli Investment Management Co., Ltd.	103,542	103,542	0	0		
Total	2,850,825,773	727,786,257		2,123,039,516		

3. Issuance and Listing of Shares

3.1 New share issuance in recent three years

Unit: Share Monetary unit: RMB

Type	Date of Issuance	Price of Issuance (Yuan)	Quantity	Listing Date
Legal person share issued by additional directional issuance	June 30 th , 2006	2.00	2,800,000,000	Sept. 29 th , 2006

The Company issued 2.8 billion legal person shares to strategic investors at RMB

2 Yuan per share, raising 5.6 billion Yuan. On June 30th, 2006, the Company has completed related registration at China Securities Depository and Clearing Corporation Limited (Shanghai Branch).

3.2. Changes of Total Share and Share Structure

In the report period, there are no other changes to the total shares and the share structure.

3.3. At the end of the report period, there are no employee shares in the Company.

II. Shareholders

1. Number of Shareholders and Particulars about Shares Held

Unit: Share

Total number of shareholders at the end of report period		232,335			
Shareholding Status of Top Ten Shareholders					
Name of Shareholder	Nature of Shareholders	Percentage (%)	Amount of Shares Held	Amount of Shares with Trading Restriction	Amount of Pledged or Frozen Shares
Grand China Air Co., Ltd.	other	48.62	1,716,394,743	1,703,108,043	unknown
Haikou Meilan International Airport Co., Ltd.	other	12.22	431,424,451	254,911,811	unknown
Changjiang Leasing Co., Ltd.	other	8.15	287,616,301	111,103,661	unknown
HNA Industrial Holding Co., Ltd	other	4.07	143,808,150	53,580,401	unknown
Hainan Jiaxin Investment Management Co., Ltd.	other	3.86	136,439,840	0	unknown
American Aviation LDC	Foreign Shareholder	3.06	108,043,201	0	unknown
Hainan Jincheng State-owned Property Administration Co., Ltd.	other	0.47	16,575,668	0	unknown
Bank of China – Jiashi Hushen 300 Index Securities Investment Fund	other	0.21	7,264,844	0	unknown
China International Travel Agency	other	0.18	6,212,512	0	unknown
HNA Group Co., Ltd.	other	0.18	6,212,512	0	unknown
Shareholding Status of Top Ten Shareholders of Tradable Shares					
Name of Shareholder	Amount of Shares held without Trading Restriction		Type of Share		
Haikou Meilan International Airport Co., Ltd	176,512,640		A Share		
Changjiang Leasing Co., Ltd	176,512,640		A Share		
HNA Industrial Holding Co., Ltd	143,808,150		A Share		
American Aviation LDC	108,043,201		B Share		
Hainan Jiaxin Investment Management Co., Ltd.	82,859,439		A Share		
Hainan Jincheng State-owned Property Administration Co., Ltd.	16,575,668		A Share		
Grand China Air Co., Ltd.	13,286,700		A Share		
Bank of China – Jiashi Hushen 300 Index Securities Investment Fund	7,264,844		A Share		
China International Travel Agency	6,212,512		A Share		

HNA Group Co., Ltd.	6,212,512	A Share
Note to relationship or "action in concert" among the top ten shareholders	Among the top ten shareholders of tradable shares, there's connected relationship among Grand China Air Co., Ltd., Haikou Meilan International Airport Co., Ltd., Changjiang Leasing Co., Ltd., Hainan Jiaxin Investment Management Co., Ltd., HNA Industrial Holding Co., Ltd and HNA Group Co., Ltd. However, there's no action in concert among them as described by Administrative Rules on Information Disclosure about Changing of Shareholding Status. The actual controller of American Aviation LDC is Grand China Air Co., Ltd.	

Shareholders of Non-tradable Shares

Unit: share

	Name of Shareholder	Amount of Non-tradable Shares held	Details of Trading Restrictions		Trading Restrictions
			Tradable Date	Amount of Shares to be Tradable	
1	Grand China Air Co., Ltd.	1,703,108,403	Sep 29,2009	1,703,108,403	Promise of G Share Reform
2	Haikou Meilan International Airport Co., Ltd	254,911,811	Sep 29,2008	176,512,640	Promise of G Share Reform
			Sep 29,2009	78,399,171	
3	Changjiang Leasing Co., Ltd	111,103,661	Sep 29,2008	111,103,661	Promise of G Share Reform
4	Jiaxin Investment Management Co., Ltd	53,580,401	Sep 29,2008	53,580,401	Promise of G Share Reform

2. Introduction to the Controlling Shareholder and the Actual Controller

Introduction to the Controlling Shareholder

Name of the Company: Grand China Air Co., Ltd.

Legal Representative: Chen Feng

Date of Establishment: July 12, 2004

Registered Capital: RMB 3,689,795,600 Yuan

Principal businesses: Air transportation, aviation maintenance and services, air catering, in-flight supplies; extended services related to air transportation, airport investment and management, airport terminal services and management, hotel investment and management.

Introduction to the Actual Controller

Name of the Company: Hainan Development Holding Co., Ltd

Legal Representative: Zhang Lei

Date of Establishment: Jan 26, 2005

Registered Capital: RMB 500 million Yuan

Principal Businesses: Marine oil & gas development and utilization, marine aquatic products processing, project development of automobile, tourism, glass, pulp and paper, pharmacy and other industries, project development of highways, ports, water conservancy, urban water supply, gas, electricity, environment protection, finance of projects with minority stake or controlling stake, asset or share management of

investment projects, due diligence, counseling, planning and feasibility studies on construction projects and guarantee of construction projects.

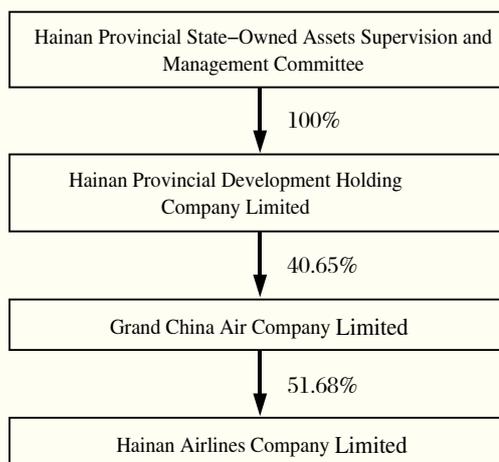
Hainan Development Holding Co., Ltd is the actual controller of the Company. It is established on January 26, 2005 with registered capital of RMB 500 million Yuan. Principal businesses of the company include: marine oil & gas development and utilization, marine aquatic products processing, project development of automobile, tourism, glass, pulp and paper, pharmacy and other industries, project development of highways, ports, water conservancy, urban water supply, gas, electricity, environment protection, finance of projects with minority stake or controlling stake, asset or share management of investment projects, due diligence, counseling, planning and feasibility studies on construction projects and guarantee of construction projects. Hainan Development Holding Co., Ltd has a stake of 40.653% in Grand China Air Co., Ltd.

Grand China Air Co., Ltd is the controlling shareholder of the Company. Grand China Air Co., Ltd was established on July 12, 2004 with registered capital of RMB 3,689,795,600 Yuan. Its establishment was approved by CAAC with file No. Zheng Fa Han [2004] 5. Its principal businesses include: air transportation, aviation maintenance and services, air catering, in-flight supplies; extended services related to air transportation, airport investment and management, airport terminal services and management, hotel investment and management. Grand China Air Co., Ltd has a stake of 51.68 % in the Company (including 3.06% holding B Share equity by American Aviation LDC).

2.3 Changes of the Controlling Shareholder and the Actual Controller

In the report period, there are no changes in the controlling shareholder and the actual controller.

2.4 Property Right and Controlling Relationship between the Actual Controller and the Company



3. Other Legal Person Shareholders Holding over 10% of Shares

Name of the Shareholder	Legal representative	Registered Capital	Date of establishment	Principal Businesses
Haikou Meilan International Airport Co., Ltd	Li Xianhua	RMB 1,486,830,000 Yuan	Aug 25, 1998	Management of operation and strategic planning of Haikou Meilan International Airport, ground services to air transportation, air tickets sales agent, aviation ground transportation service agent, automobile transportation and real estate.



IV. Directors, Supervisors and Senior Executives

I. Particulars about Directors, Supervisors and Senior Executives

Name	Position	Sex	Age	Service Term	Shares Held at Beginning of the Year	Shares Held at End of the Year	Cause of Changes	Annual Remuneration (RMB 1,000 Yuan)
Zhu Yimin	Chairman	male	47	2007-11-17~ 2010-11-17				183.6
Wang Yingming	Vice Chairman	male	45	2007-11-17~ 2010-11-17				208.6
Yang Jinglin	Vice Chairman	male	52	2007-05-18~ 2010-05-18				207.4
Mou Weigang	Director	male	46	2007-11-17~ 2010-11-17				215.9
Yang Hui	Independent Director	male	70	2006-05-31~ 2008-05-31	----	----		80
Wang Zhi	Independent Director	male	66	2006-05-31~ 2009-05-31	----	----		80
Chen Rijin	Independent Director	male	62	2007-05-18~ 2010-05-18				80
Zhang Cong	Convener of the Board of Supervisors	male	49	2006-05-31~ 2009-05-31	----	----		25
Li Rui	Supervisor	male	31	2006-05-31~ 2009-05-31	----	----		25
Chen Ping	Supervisor	male	33	2006-05-31~ 2009-05-31	----	----		25
Wu Qingping	Supervisor	male	43	2007-12-29~ 2010-12-29	----	----		25
Zhao Zongtao	Supervisor	male	56	2006-05-31~ 2009-05-31	----	----		25
Liu Dan	CFO	male	37	2006-04-30~ 2009-04-30	----	----		145.5
Zhang Shanghui	Secretary of the BoD	male	37	2006-04-30~ 2009-04-30	----	----		122.3

Profiles of Directors, Supervisors and Senior Executives in Recent Five Years

Zhu Yimin: Male. Born in 1961, master degree, he graduated from international business major of Xia Men University in 1997. He is chairman of HNA. Since 2001, he worked as the vice executive president, managing vice executive president, CEO, and president of HNA. In November 2007, he acted as the chairman of the Company.

Wang Yingming: Male. Born in 1963, bachelor degree, he graduated from aviation engine control major of North-West Industry University in 1986. He is vice chairman and president of HNA. Since 2001, he worked as the general manager of maintenance department of the Company, the managing deputy executive president, COO and managing deputy president of HNA. In November 2007, he acted as the vice chairman

and president of the Company.

Yang Jinglin: Male. Born in 1956, bachelor degree. He is vice chairman of HNA and executive president of China Xinhua Airlines Company. He worked as the executive president of China Xinhua Airlines since 1997.

Mou Weigang: Male. Born in 1962. He is vice president of the Company with service term from April 2006 to April 2009. He graduated from No.1 Air Force Flight Academy. He worked as flight commander in certain division of Air Force, deputy chief in certain division of Air Force and etc. He joined in Hainan Airlines in 1992 and worked as vice general manager of the flight department.

Yang Hui: Male. Born on Dec 27, 1938. He is independent director of the fifth BOD of the Company. Bachelor degree. He began to work in 1956, joined the Communist Party of China in 1980, and obtained the senior accounting/auditing certificate in 1988. In 1995 he obtained CPA (Certified Public Accountants) certificate. He worked as the accountant of Economy and Trade Committee of Hainan Province, the head of the administration department and vice director of Economy and Trade Committee of Hainan Province, the vice director of Economy Inspection department of Hainan Province, the head of the Auditing Department of Hainan Province and the director of the Financial section of the Standing Committee of People's Congress of Hainan Province.

Wang Zhi: Male. Born on Dec 20, 1942. Senior engineer. He is independent director of the fifth BOD of the Company. He has been the engineer of the Chen Yang Aircraft Design office, the director of the Planning department of CAAC, the standing director of China Aviation Committee, the independent director of China Southern Airlines Company and Shan Dong Airlines Company.

Chen Rijin: Male. Born in 1946. He is independent director of the fifth BOD of the Company. From May, 1996 to May 1998, he was the leader of Commission of Industry of Hainan Province and from May 1996 to March 2005; he was the leader of Commission of Finance of Hainan Province.

Zhang Cong: Male. Born on Feb 1, 1959. He is supervisor of the Company with service term from May 2006 to May 2009. He graduated from China Civil Aviation College. He worked as the general manager of the department of project development of HNA Group. He is the Chairman of Meilan International Airport Co., Ltd.

Chen Ping: Male. Born on Feb 15, 1975. He is supervisor of the Company with service term from May 2006 to May 2009. He graduated from Fu Dan University with

bachelor's degree. He is the general manager of general administrative department of Yangtze River Express Co., Ltd.

Li Rui: Male. Born on Jan 5, 1977. He is supervisor of the Company with service term from May 2006 to May 2009. He works in the securities department of HNA.

Wu Qingping: Male. Born in 1965. He is supervisor of the Company. He is the assistant to the director of general administrative office of the Company.

Zhao Zongtao: Male. Born on Feb 25, 1952. He is supervisor of the Company with service term from May 2006 to May 2009. He is the general manager of Hainan Zhengyuan Industrial Co., Ltd. and deputy general manager of Hainan American Corporation.

Liu Dan: Male. Born in 1971. He is CFO of the Company with service term from April 2006 to April 2009. He graduated from Zhongnan University of Economics and Law. He joined in Hainan Airlines in 1994 and worked as assistant manager of planning and finance division, assistant to general manager of the planning and finance department, CFO of Chang'an Airlines, general manager and CFO of XinHua Airlines, general manager of planning and finance department of HNA Group, and deputy general manager of HNA Group Finance Co., Ltd.

Zhang Shanghui: Male. Born on Dec 13, 1971. He is secretary of BOD with service term from April 2006 to April 2009.

II. Jobs Taken by Directors, Supervisors and Senior Executives in Shareholding Companies and other companies

Name	Company	Position	Service Term	Remuneration (Yes/No)
Wang Zhi	Shan Dong Airlines Co., Ltd, China Southern Airlines Co., Ltd	Independent director		Yes
Zhang Cong	Hainan Meilan International Airport Co., Ltd	Chairman		Yes

III. Rewards of Directors, Supervisors and Senior Executives

1. The approving procedure for rewards of directors, supervisors and senior executives is implemented according to the Report on Rewards Plan of Directors, Supervisors and Senior Executives as approved by the Board Meeting and the General Meeting of Shareholders.

2. The rewards of directors and supervisors are decided according to the current and relevant administrative procedures. The rewards of senior executives are determined according to their performance.

The rewards for a director are RMB80, 000 Yuan (including liability insurance of RMB30, 000 Yuan) annually; the rewards for a supervisor are RMB 25, 000 Yuan. The reward for a senior executive is determined by performance in the relevant period.

IV. Resignation of Directors, Supervisors and Senior Executives during the Report Period

Name	Position	Reason
Chen Feng	Chairman	Board adjustment
Wang Jian	Vice chairman	Board adjustment
Tan Xiangdong	Director	Board adjustment
Li Qing	Director	Board adjustment
Ronald O. Drake	Director	Board adjustment
Iain Aitken	Director	Board adjustment
Ke Deming	Independent Director	Post maturity
Qian Daoyun	Supervisor	Post change

The above changes on directors have been approved by the 7th session of the fifth Board Meeting, 11th session of the fifth Board Meeting, 2006 annual general meeting of shareholders and the first temporary general meeting of shareholders of 2007.

The above change on supervisor has been approved by the 7th session of the fifth Board meeting of Supervisors and the second temporary general meeting of shareholders of 2007.

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V. Staff

By the end of the report period, HNA employs 8886 staffs. Among them, there are 49 retired that the Company needs to bear relevant cost.

1. Distribution on Occupation

Occupation	Number of Staff
Pilots	1,049
Flight Attendants	1,538
Mechanics	1,613
Flight Operations	172
Others	4,514

2. Distribution on Education

Education Background	Number of Staff
Masters Degree or above	106
Bachelors Degree	3,070
College Diploma	3,220
Intermediate Certificate or below	2,490

V. Administrative Structure

I. Current Structure

Ever since its listing, HNA has improved the corporate governance structure, regulated its operation, strictly in accordance with the requirement of the Company Law, the Security Law, the related regulations by CSRC and Listing Regulation of SSE.

1. Shareholders and Shareholders' Meeting: HNA ensures that all shareholders, especially the retail investors, enjoy the same status and rights equally. The Company's website has been established to keep efficient communications with shareholders and make them aware of the operating situation of the Company. Regulation on shareholders' meeting was formulated, and the General Meetings of Shareholders were held strictly according to The Rules of the General Meeting of Shareholders issued by CSRC. The shareholders are encouraged to participate in the meetings and to vote as much as possible and lawyers are employed to present as witnesses. The pricing of the related transaction is fair and reasonable, all the related transactions is legal and valid by strictly following the procedures of BoD and Board of Supervisors as stipulated by Listing Regulation of SSE.

2. Chief Shareholders and HNA: The chief shareholders exert their rights through General Meetings of Shareholders, and are not directly involved in the policy-making and operation of HNA. HNA is independent from the chief shareholders in assets, finance, organization and operation. The BoD, Board of Supervisors and the management organization of the Company are independent.

3. Directors and the Board of Directors: Directors of HNA are appointed strictly according to the Articles of Association. The structure of BoD is in line with related laws, regulations and the Articles of Association of HNA. The directors of HNA can fulfill their duties, present the Board Meeting and shareholders' meeting in person. They are familiar with the related laws and regulations and aware of their rights, obligations and responsibilities as directors.

4. Supervisors and the Board of Supervisors: The structure of the Board of Supervisors agrees with the laws, regulations and the Articles of Association of HNA. Rules on Process of Board of Supervisors has been formulated, and perfected in practice. Supervisors of HNA can fulfill their responsibilities seriously and supervise the performances of directors, managers and other senior management personnel.

5. Performance Evaluation and Incentive Program: HNA is actively formulating a just and transparent performance evaluation and incentive program to directors, supervisors

and managers. The appointment of managers is transparent, and complies with the related laws and regulations.

6. Interest-related Parties: HNA safeguards the legal rights and interests of the banks, creditors, customers, employees and other interest-related parties so as to maintain substantial and healthy development of the Company.

7. Information disclosure and transparency: The secretary to the BoD is appointed to be in charge of the information disclosure, reception and consultation, and enhance the communication with shareholders. HNA ensures to release the accurate and complete information in time in accordance with related laws, regulations and the Articles of Association of HNA so that all the shareholders enjoy the equal opportunity to get the information.

On March 9, 2007, China Securities Regulatory Commission (Hereinafter referred to as “CSRC”) issued Notice on Issues Concerning Campaign to Strengthen Corporate Governance of Listed Companies (Hereinafter referred to as “Notice”) No. 28 (2007), which demands listed companies to develop special campaign to strengthen corporate governance. According to the requirements of Notice, the Company started up special campaign for corporate governance on April 30, 2007 to self check corporate governance situation. In addition, the Company prepared practical and feasible rectification measures according to the suggestions of investors and the public, the evaluations and rectification suggestions of Hainan Securities Regulatory Bureau of CSRC (Hereinafter referred to as “Hainan Securities Regulatory Bureau”) and Shanghai Stock Exchange (Hereinafter referred to as “SSE”) to corporate governance. The detailed situations are as follows:

On April 30, 2007, the Company studied and comprehended the spirits of Notice of CSRC and Notice on Issues Concerning Campaign to Deeply Develop Activities to Strengthen Corporate Governance of Listed Companies of Hainan Securities Regulatory Bureau, established the leadership group for strengthening corporate governance (Hereinafter referred to as “corporate governance leadership group”) and prepared working plan of corporate governance and started up special campaign for corporate governance.

On June 29, 2007, the Company held the first temporary Board meeting of 2007. The meeting deliberated and passed Self-check Report and Rectification Plan Concerning Corporate Governance of HNA (Hereinafter referred to as “Self-check Report and Rectification Plan”).

From July 5, 2007 to July 20, 2007, the Company set up hotline and network

platform to hear the comments and rectification suggestions of investors and the public on corporate governance.

On October 9, 2007, Hainan Securities Regulatory Bureau conducted field inspection to the corporate governance of the Company.

On October 17, 2007, Hainan Securities Regulatory Bureau issued Notice on Rectification within Time Limit to the Company.

On October 31, 2007, the Company held the second temporary Board Meeting of 2007. The meeting deliberated and passed Rectification Report Concerning Corporate Governance of Hainan Airlines Co., Ltd.

The development of the special campaign to strengthen the governance of the Company is a significant measure taken for strengthening the standard operations and improving the information disclosure quality and fulfilling the systems of corporate governance as well as promoting substantial and healthy development of the Company. The Company will insist on enhancing corporate governance works according to the requirements of relevant laws and regulations such as Company Law, Securities Law and Rule for Stock Listing and improve the level of corporate governance.

II. Performance of the Independent directors

1. Present of the board meeting

Name of the independent director	Times of present in person	Commission	Absence
Yang Hui	8	1	
Wang Zhi	9		
Chen Rijin	7		

In the report period, Mr. Yang Hui, Mr. Wang Zhi and Mr. Chen Rijin voted from the 7th Sessions to the 13th Sessions of the 5th Meeting of BoD and two temporary Board meetings, they have fulfilled their obligations as independent directors.

2. In 2007, the independent directors raised no dissidence against any proposals on the board meeting or other events of the Company.

III. Independence of the Company's Operation, Assets, Organization, and Finance from the controlling shareholder

1. Operation: the main business of HNA is air passenger and cargo transportation. The operation of the Company is fully independent from the controlling shareholder or other related parties.

2. Corporate governance: The Company has established the complete corporate

governance structure according to The Company Law. The president, vice presidents and finance staffs do not hold any positions in the shareholders' companies or related companies. The Company has established an independent and complete human resource management system.

3. Assets: The Company has its own independent flight system, auxiliary flight system, corresponding facilities and equipments, real estate and trademark, and the delimitation in industrial property rights and non-patent technology is clear. The unavoidable related transactions are completed according to the business common practices, and the related shareholders fulfill the avoiding process according to the Articles of Association of HNA during voting on shareholders' meeting. The Company maintains relative assets integrity from the controlling shareholder.

4. Organization: The Company has independent General Administration Office, Production & Operation Control Center, Planning & Finance Department, Human Resource Department, Operation Support Department, Marketing & Sales Department, Flight Department and Maintenance & Engineering Department. The organization and operation facilities of the Company are completely separated and independent from that of the controlling shareholder.

5. Finance: The Company has an independent financial department, independent accounting & managing system and separate bank accounts. HNA has its own tax registration number and pays taxes independently. The financial system of the Company is independent from that of the controlling shareholder.

IV. Performance Evaluation and Incentive Program to Senior Management

The annual rewards of the senior managers are monthly paid according to the related standard approved by the BoD. The Human Resource Department formulated the salary standard on the basis of the operation results of the Company, and submits to the shareholders' meeting for approval.

The performance evaluation system of the senior managers consists of the annual evaluation scheme, assessment by the chairman, reward program and bonus incentive program.

V. Establishment and Improvement of Internal Control System of the Company

In order to establish, improve and implement internal control system as well

as increase risk management level of the Company and protect legal rights of the investors, the Company prepared a series of administrative provisions and business process according to laws and rules and regulatory documents such as Company Law, Securities Law and Notice of the State Council on Approving and Forwarding the Opinions of China Securities Regulatory Commission on Improving the Quality of Listed Companies and regulations of Rules of Shanghai Stock Exchange on the Listing of Stocks.

1. Safety Production System: Safety production is critical to airlines enterprises. For a long time, the Company develops active safety reporting system continuously to improve safety culture, achieving best industrial level of the accident rate per one million flight hours in 2006 and 2007, which altered the passive safety situation of the Company; continuous innovation, in line with international standards, constantly improve safety management system. Complete SMS Experiment successfully and pass review of IOSA smoothly; vigorously develop safety audit and fulfill the rectification and potential safety hazard checking of the general bureau and deeply develop safety rectification; win civil aviation safety cup for two consecutive years. The Company creates zero accident rate per one million flight hours and wins "Golden Eagle Cup" after winning the highest prize "Golden Roc Cup" of civil aviation safety last year.

2. Production Operation System: The Company improves the production operation management system according to market situation, including Annual Production Operation Plan System, Marketing Management System, Safety Production Management System and etc. Through fine flight management, according to seasonal characteristics of the market, the network structure of flight courses is improved; through establishment of three hierarchies monitoring and reporting system of "Overall, Region, Flight", application of flight early warning system and implementation of appropriate price monitoring mechanism, the profits of the Company are maximized.

3. Financial Management System: In order to strengthen the fund management of the Company, raise and arrange the fund effectively and ensure fund safety, the Company prepared various financial management systems strictly in accordance with the regulations of Accounting Law and Accounting Criteria for Enterprises, which explicitly stipulate the fund management, asset management, financial management system, financial accounting, overseas investment management, cost management and management to income and profit distribution. This year, the Company establishes Audit Committee to monitor financial management of the Company effectively, further fulfilling financial management system of the Company.

4. Information Disclosure Management System: According to relevant regulations of CSRC and Shanghai Stock Exchange, the Company prepares Methods of Information Disclosure Management, which explicitly stipulate the range, procedure, persons in charge and confidential measures of information disclosure. The awareness of information disclosure of Board of Directors, Board of Supervisors and senior management personnel has been obviously improved. Thus, the corporate governance is strengthened obviously.

In addition, according to relevant requirements of special campaign inspection of corporate governance, the Company implements cumulative voting system this year, at the same time, the Company establishes Audit Committee and Remuneration Committee and completely modifies relevant documents concerning governance such as Rule of Procedure of Shareholders' Meeting, Rule of Procedure of Board of Supervisors, Rule of Procedure of Board of Directors, Independent Director System, Working System of President and Rule of Investor Relationship Management.

In future, in the aspect of system construction, the Company will further fulfill complete budget management system, fund approval system, fixed asset investment management system, materials procurement management system, human resources and labor and capital management system; in the aspect of organization structuring, the Company will strengthen the function of relevant internal control departments such as auditing affairs and legal affairs and monitor and control the fulfillment and implementation of financial auditing, contract reviewing and various internal control systems; in the aspect of risk control, the operation risk is mainly about safety problems of aircrafts. The Company has special safety monitoring department and sets up early warning mechanism of eventualities to resist and prevent risks; in the aspect of operation, according to the characteristics of airline companies, the airline companies of other places belonging to the Company have been consolidated. The financial operation and production operation are separated. Therefore, there is no risk of out of control.

VI. Brief Introduction to the General Meeting of Shareholders

1. Annual General Meeting of Shareholders

On May 18 of 2007, it was held at the conference hall on 4th floor of Haihang Development Mansion, 29 Haixiu Rd., Haikou, Hainan province.

The resolution of the meeting was published on the China Securities News, Shanghai Securities News, Hong Kong's Wen Wei and Securities Times on May 19, 2007.

2. Temporary General Meeting of Shareholders

2.1 On Nov 16, 2007, the Company held the first temporary general meeting of shareholders of 2007.

The resolution of the meeting was published on the China Securities News, Shanghai Securities News, Hong Kong's Wen Wei and Securities Times on Nov 17, 2007.

2.2 On Dec 28, 2007, the Company held the second temporary general meeting of shareholders of 2007.

The resolution of the meeting was published on the China Securities News, Shanghai Securities News, Hong Kong's Wen Wei and Securities Times on Dec 29, 2007.



VII. Report of Board of Directors

I. Discussion and analysis of the managements

1 Review of the overall operation status in the report period

1.1 General information

In 2007, the Company realized the income from the principal business of RMB 12.816 billion Yuan, increased by 3.03%, which includes the passenger income of RMB 11.256 billion Yuan, taking 87.83% of the income from the principal business, the cargo and overweight luggage income of RMB 354 million Yuan, taking 2.76%, and the chartered flight income and other incomes of RMB 1.18 billion Yuan, taking 9.21%. The total profit of principal business reached RMB 587 million Yuan and the net profit RMB 708 million Yuan.

In 2007, the Company reached the total passenger volume of 14.494 million person* times, increased by 0.69% comparing with that of last year, the cargo and mailing transportation volume of 197,800 tons, decreased by 0.51%, and the total transportation volume of 2.241 billion tons*kilometers, increased by 4.71 %.

In 2007, the Company introduced 8 aircrafts, including 5 Boeing737-800, 1 Airbus 319 and 2 Airbus 330. As the date of Dec. 31 of 2007, the Company has 66 aircrafts, including 55 Boeing737, 3 Boeing767, 6 Airbus 319 and 2 Airbus330.

1.2 Status of the principal business and its operation

1.2.1 Status of the principal business classified according to the industry or product

Monetary Unit: RMB 100 million Yuan

Principal Business	Income from Principal Business	Cost	Profit Percentage	Increase/Decrease of the Income from Principal Business	Increase/Decrease of the Cost on Principal Business	Increase and Decrease of the Profit Percentage of Principal Business
Aviation Industry	128.16	102.86	4.33%	3.03%	-0.42%	3.5%

Causes for increase in the income from principal business: The increase in the use rate and income per hour contributed mainly to the increase in the income from principal business.

1.2.2 Status of principal business classified by geographic regions

Region	Income of Principal Business (RMB 1,000 Yuan)	Increase/Decrease of the Income from Principal Business Compare with Previous Year (%)
Haikou	8,416,316	19.67

Beijing	2,925,262	-3.29
Xi'an	1,649,208	-8.29
Taiyuan	607,586	-41.09

1.2.3 Suppliers and customers

Monetary unit: RMB Yuan

Total Buying Amount from the Top 5 Suppliers	3,676,740,000	Percentage over the Total Buying Amount	35%
Total Turnover of the Top 5 Distributors	7,400,380,000	Percentage over the Total Turnover from product	55%

1.3 Changes in the assets structure of the Company comparing with that of the previous year

Item	Amount (RMB 1,000 Yuan)	Increase/Decrease	Causes for Change
Total advance payments	1,780,238	1484.7%	The Company bought the stock right of the Bohai International Trust Company and Merchants Securities.
Total construction in progress	6,891,808	236.6%	The advances for purchasing the aircraft

1.4 Changes in the financial data comparing with that of the previous year

Item	Report Period (RMB 1,000 Yuan)	Previous Year	Increase/Decrease (%)
Profit from other business	432,244	231,283	86.89
Administrative expense	514,770	459,890	11.93
Causes for change	The aircraft leasing contributed to the increase in profit from other businesses.		

1.5 Cash Flow Analysis

Item	Report Period	Previous Year	Increase/Decrease (%)
Net increase in cash and cash equivalent	-815,369	2,852,577	-128.58%
Net cash flow from operating activities	2,909,106	4,999,873	-41.82%
Net cash flow from investment activities	-6,273,927	-3,482,525	-80.15%
Net cash flow from financing activities	2,568,407	1,367,368	87.84%
Causes for change	The decrease in net cash flow from operating activity was contributed by the increase of business, fuel expenses and take-off fees. The decrease in net cash flow from investment was contributed by aircraft purchasing. The increase in net cash flow from financing activity was contributed by the increase in bank loans.		

2. Operation results and performances of the holding subsidiaries

2.1. China Xinhua Airlines Co., Ltd

The registered capital of China Xinhua Airlines Co., Ltd is RMB 1.83 billion Yuan. Its business scope is approved air passenger and cargo transportation. In the report period, its income from principal business accounted for RMB 2.925 billion Yuan, profit from principal business RMB 51 million Yuan. The Company holds 60% equity interests in it.

2.2 Chang'an Airlines Co., Ltd

The registered capital of Chang'an Airlines Co., Ltd is RMB 754,390,000 Yuan. Its business scope is air passenger and cargo transportation inside Shan'xi province and inter-provincial transportation with its neighboring provinces. In the report period, its income from principal business accounted for RMB 1.649 billion Yuan, profit from principal business RMB 81 million Yuan. The Company holds 87.35% equity interests in it.

2.3 Shan'xi Airlines Company Limited

The registered capital of Shan'xi Airlines Co., Ltd is RMB 658 million Yuan. Its business scope is approved air passenger and cargo transportation. In the report period, its income from principal business accounted for RMB 608 million Yuan, profit from principal business -RMB 8.6 million Yuan. The Company holds 96.97% equity interests in it.

3. Prospect of the future development

3.1 Industry Development

In the development target of China civil aviation from 2006-2010 released by CAAC, it is expected that the annual growth of air transportation turnover of China civil aviation would keep 14% annual increase during the 11th Five-Year Plan, more than 1.5 times of the increase of GDP. In 2006, the total turnover of the aviation industry of mainland China (Hong Kong, Marco and Taiwan were not included) reached 30.2 billion ton*kilometers and ranked No.2 biggest aviation transportation market next to the US on the board of the partner nations of the ICAO comparing with the 37th in 1978. After experiencing the tough profit-earning time of the aviation industry in 2006, the profit earning ability of it in 2007 promoted to some extent in consideration of the effect of factors such as the expansion in transportation capacity, market demand, oil price at the international market and currency exchange rate, etc. In 2007, the development of the civil aviation industry kept rather good status in the respect of steady safe operation, rapid production increase, optimization of operation structure, improvement of economic efficiency and service quality. It's estimated that the total turnover of the aviation industry in 2007 accounted for 36.1 billion ton*kilometers, increased by 18.1% comparing with 2006, and the passenger transportation reached 185 million person times, increased by 15.9%. The general aviation realized steady increase, economic efficiency and service quality improved.

The civil aviation industry would keep good overall tendency in 2008. Meanwhile, it

would face great challenge. The civil aviation industry would reach better achievements in 2008 in consideration of steady appreciation of Renminbi, promotion of Olympic Games and economic increase. However, the continuous high oil price at the international market, more intensive competition environment and estimated macro control would also influence the operation of the industry to different degree. It could be expected that the increase of the total turnover and passenger transportation of the industry in 2008 would be over 16%.

3.2 Development opportunities, strategy and operation plan of 2008

The year of 2008 is the first year to carry out the spirit of the 17th National Conference of the CCP, the 30th anniversary of the reform and year of the Olympic Games. The general development tendency of the industry is good. It's estimated that the total turnover of the industry in 2008 would be 42 billion ton*kilometers, increased by 16% comparing that of 2007, passenger transportation 210 million person times, increased by 14% and cargo and mail transportation 4,450,000 tons, increased by 12%. The Company would grasp the opportunity and look for a high level development. It would strike to lay a strong foundation for a world famous brand enterprise.

Guidelines in 2008: To push forward the establishment of the company brand in all directions, improve the quality of safety system, operation system and management system, realized harmonized development and lay a strong foundation for a world famous brand enterprise.

Target production indexes in 2008:

---Safety: To prohibit accident of flying, grounds, air defense and serious maintenance accident of aircraft, prohibit aircraft hijacking and explosion. The ten thousand hour rate with trouble symptom discounted with the Company's responsibility should be lower than 0.15.

---Punctuality: The rate of flight punctuality should reach 87.38%. The flight delay rate over one hour should not exceed 12%. The flight delay rate over four hours should not exceed 2%.

---Service: The satisfaction degree of the customer should not be lower than 87.9. The complain time should not exceed 2,178 times. The valid complain time of the customer should not exceed 950 times.

---Operation: To realize the total turnover of 2,785 million ton*kilometers, passenger transportation volume of 16,750,000 person times, flying hours of 298,400 hour and flying times of 132,700 times.

3.3 Demand of capital and its utility

It's estimated that the capital of RMB 9.8 billion Yuan will be needed to achieve the operation target of 2008 which will be collected through bank loans, short-term financial certificates, etc. The major use of the capital would be ensuring the increase in transportation ability of the Company.

3.4 Analysis on Main Risky Factors Faced by the Company

With large fluctuation of international crude oil prices in 2007, domestic aviation fuel price was also adjusted to some extent. Currently, the retail price of aviation fuel reached 6403 Yuan per ton, increased 4.74% comparing with the price of RMB 6,113 Yuan per ton at the year beginning. At present, the expense on the aviation fuel takes about 40% of cost structure. The long-term high price of aviation fuel forms pressure on the operation cost of the Company. Since the shortage of surplus productivity of crude oil and oil refining kept in 2008, it would be difficult for price of crude oil and product oil to reduce substantially and the product oil price keep high level, the airlines enterprises would still suffer the situation of high oil price in 2008.

Entering 2008, the appreciation of Renminbi has a tendency of acceleration. "Renminbi will keep rapid appreciation continuously. The increasing CPI also predicts that the deflation policy will not be changed within the year. The appreciation of Renminbi may be continued as a method of preventing overheated economy." Several analysts said. Looking at the tendency of Renminbi exchange rate in 2008, under the expanding pressure of foreign trade surplus, the tendency of Renminbi appreciation will not be changed. The exchange rate of RMB against US dollar will be further appreciated. Therefore, the Company anticipates that exchange rate net earning will also have a positive influence on the performance of the Company in 2008. However, the fluctuation of exchange rate will also influence on the performance of the Company.

II. Status of the principal business

1. Status of the principal business classified by the industry and product

Monetary Unit: RMB 1,000 Yuan

Industry or Product Classification	Income from Principal Business	Cost on Principal Business	Profit Percentage (%)	Increase/Decrease of the Income from Principal Business (%)	Increase/Decrease of the Cost on Principal Business (%)	Increase and Decrease of the Profit Percentage of Principal Business (%)
Air Traffic	13,556,798	10,594,519	4.33	6.1	1.54	3.5

2. Status of principal business classified by region

Monetary Unit: RMB 1,000 Yuan

Region	Income from Principal Business	Increase/Decrease of the Income from Principal Business Compare with Previous Year (%)
Haikou	8,416,316	19.67
Beijing	2,925,262	-3.29
Xi'an	1,649,208	-8.29
Taiyuan	607,586	-41.09

III. Investment Situation of the Company

1. Application of the collected capital

In 2006, the Company has collected capital of RMB 5.6 billion Yuan by the additional directional issuance, the accumulated used collected capital accounted for RMB 1,488,198,000 Yuan and unused capital for RMB 4,111,802,000 Yuan.

The usage of the unused collected capital: According to the requirements of the shareholders, the above stated capital was deposited at the HNA Group Finance Company, which would be paid upon the confirmation of related projects.

The use of proceeds of the raised capital is accorded with the resolution of the 11th session of the 4th board meeting and the resolution of the first temporary general meeting of shareholders of 2005, as follows:

To acquire the interests of the minority shareholders, repay bank loans, purchase new aircrafts, expand the fleet and increase working capital.

By now, the progress of the use of the collected capital is as follows:

To acquire the interests of the minority shareholders: the Company is engaged with the minority shareholders and made good progress, but it did not been completed;

To purchase new aircrafts: it mainly used for the future introduction and the related payment did not be paid by now.

In order to supervise the use of the collected capital and in consideration of fund safety, the above stated capital is deposited in HNA Group Finance Co., Ltd provisionally by the shareholders' requirement, and it will be paid as soon as the use of the collected capital is confirmed.

2. Introduction to non-collected capital

In the report period, there is no investment for non-collected capital.

IV. Reasons for and Influence of Changes in Accounting Policy

The reconciliation between the consolidated shareholders' funds at the beginning and ending of 2006 and the consolidated net profit for the year ended 31 December 2006 presented in accordance with the old Accounting Standards and Regulations, and that presented in accordance with CAS is as follows:

Monetary unit: 1,000 Yuan

	1 January 2006 Consolidated owners' equity	2006 Consolidated net profit	31 December 2006 Consolidated owners' equity
Amount presented in accordance with the Previous Accounting Standards and System	2,712,976	181,602	6,990,594
Transferred from minority interests	750,660	16,369	772,702
Equity investment difference			
Including: Equity investment difference arising from business combination involving enterprises under common control	-	-	-
Credit balance of other equity investment difference accounted for using equity method of accounting	-19,543	-3,506	-23,049
Goodwill			
Including: goodwill arising from business combination involving enterprises under common control	-	-	-
Impairment of goodwill arising from business combination involving enterprises not under common control	-	-	-
Financial assets at fair value through profit or loss and available-for-sale financial assets	-	-	-
Capitalized development costs	-	-	-
Income taxes			
Including: deferred tax assets	53,338	-11,742	41,596
deferred tax liabilities	-	-	-
Amount presented in accordance with CAS	3,497,431	182,723	7,781,843

First-time adoption of CAS

The company has first-time adoption of CAS at 1 January 2007. Prior year adjustment of the shareholders' funds had been made for the difference between the shareholders' fund for the year ended 31 December 2006 as reported under the old accounting standard and under the new accounting standard. The consolidated financial statements have been prepared in accordance with the requirement under CAS 1. A reconciliation of the assets, liabilities and shareholders' funds under the old accounting standard to its equity report under new accounting standard at the date of transition to new standard are as follows:

	Amount after adjusted 2007	A share 2006	Difference	Adjust reason
The amount under old accounting standard	6,990,594	6,990,594	-	
Transferred from minority interests	772,702	772,702	-	
Equity investment difference				
Including: Equity investment difference arising from business combination involving enterprises under common control	-	-	-	
Credit balance of other equity investment difference accounted for using equity method of accounting	(23,049)	-	(23,049)	(1)
Goodwill				
Including: goodwill arising from business combination involving enterprises under common control	-	-	-	
Impairment of goodwill arising from business combination involving enterprises not under common control	-	-	-	
Financial assets at fair value through profit or loss and available-for-sale financial assets				
Capitalized development costs	41,596	41,596	-	
Income taxes	-	-	-	
Including: deferred tax assets	7,781,843	7,804,892	(23,049)	

Reasons for revisions:

a. It's the relative adjustment to the minority interest upon the confirmation of deferred income-tax assets of the initial performance of the Enterprise Accounting Standards.

b. It's the relative adjustment to the undistributed profit at the period beginning while setting-off the other difference of long-term equity investment-credit accounted in equity method in full amount according to the Enterprise Accounting Standards Specification No. 1.

c. It's the relative adjustment to the undistributed profit at the period beginning while initially performing the Enterprise Accounting Standards and confirming the deferred income-tax assets in the method of balance sheet.

V. Routine Work of Board of Directors
1 Meetings of Board of Directors

1.1 On April 9, 2007, the 7th Session of the 5th Board Meeting of the Company was held, and the Resolution Announcement was published on China Securities News, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po on April 10, 2007.

1.2 On April 27, 2007, the 8th Session of the 5th Board Meeting of the Company was held and the First Quarter Report was published.

1.3 On June 29, 2007, the temporary Board Meeting was held, and the Resolution Announcement was published on China Securities News, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po on June 30, 2007.

1.4 On Aug 30, 2007, the 9th Session of the 5th Board Meeting was held, and the Resolution Announcement was published on China Securities News, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po on Aug 31, 2007.

1.5 On Oct 29, 2007, the Temporary Board Meeting was held, and the Resolution Announcement was published on China Securities News, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po on Oct 30, 2007.

1.6 On Oct 30, 2007, the 10th Session of 5th Board Meeting was held, and the Resolution Announcement was published on China Securities News, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po on Oct 31, 2007.

1.7 On Oct 31, 2007, the 11th Session of the 5th Board Meeting of the Company was held, and the Resolution Announcement was published on China Securities News, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po on Nov 1, 2007.

1.8 On Nov 16, 2007, the 12th Session of the 5th Board Meeting of the Company was held, and the Resolution Announcement was published on China Securities News, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po on Nov 17, 2007.

1.9 On Dec 11, 2007, the 13th Session of the 5th Board Meeting of the Company was held, and the Resolution Announcement was published on China Securities News, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po on Dec. 12, 2007.

2. Subsequent events on resolutions of the General Meeting of Shareholders

2.1 Issuance of Short-term Certificate

On May 18, 2007, the Company held 2006 Annual General Meeting of Shareholders, considered and approved The Proposal on Issuance of Short-term Certificate, the Company plans to issue enterprise short-term financing certificate for no more than RMB 2.8 billion in the bond market. The Company has issued the short-term certificate of RMB 1.2 billion Yuan and 1.3 billion Yuan respectively in August and

November, 2007.

2.2 Mutual guarantee

On May 18, 2007, 2006 Annual General Meeting of Shareholders authorized the amount of mutual guarantee of the Company and the holding subsidiaries, Xinhua Airlines, Chang'an Airlines and Shan'xi Airlines of 3.5 billion Yuan. In the report period, the actual occurred mutual guarantee accounted for 1.65 billion Yuan.

The Board of Directors has also completed the tasks approved by the 2006 Annual Shareholders' Meeting, the 1st and 2nd Temporary Shareholders' Meetings of the Company.

3. Summary Report of the Audit Committee under Board of Directors

The Audit Committee hears the report of management to annual operation in 2007 before entering of annual audit accountants and reviews the financial accounting statements prepared by the Company. The Audit Committee regards that the financial statements can reflect the financial situations and operation results of the Company objectively. After entering of annual certified accountants, the Audit Committee hears the time schedule and works arrangement of annual financial audit works of certified accountants. During the process of auditing, the Audit Committee keeps in touch with certified accountants and supervises and urges annual audit accountants to complete annual audit task with high quality according to predetermined plan. After annual audit certified accountants finishing audit draft, the Audit Committee reviews the financial statements of the Company for another time. The Audit Committee regards that the financial statements of the Company reflect the overall situation of the Company truly, accurately and completely and formed written comments. At the same time, the Audit Committee reviews and submits the summary report of auditing work of accounting firm for this year and comments for continuous employment of accounting firm. The Audit Committee regards that PricewaterhouseCoopers is one of the four international accounting firms and is a well-known firm globally. During annual audit service works in 2007, it well completed all the works consigned by the Company according to principles of independency, objectivity and fairness. Therefore, the Audit Committee suggests that the Company to employ PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd as annual auditing institution of 2008.

4. Summary Report of the Remuneration Committee under Board of Directors

Within report term, the Remuneration and Appraisal Committee under Board of Directors reviews the remuneration and appraisal system of the Company and

remuneration distribution schemes of directors, supervisors and senior management personnel in 2007. The Remuneration Committee thinks that various business indexes of the Company has achieved better performance in 2007. The remuneration appraisal systems of the Company played a positive part. The Remuneration Committee totally agrees the remuneration appraisal systems of the Company. For remuneration distribution schemes of directors, supervisors and senior management personnel, the Remuneration Committee agrees to submit them to Board of Directors and Annual Shareholder's Meeting for discussion.

VI. Preplans for Profit Distribution /Preplan for Capitalization of Capital Reserve

In the fiscal year of 2007, the net profit of the Company audited accounted for RMB 708,326 thousand Yuan. The accumulated undistributed profit accounted for RMB 106,912 thousand Yuan after covering the accumulated losses in previous year. The profit distributious will not be carried out and the capital reserve will not be transferred into share capital.

VII. No Preplan for Profit Distribution

The profit distributions will not be carried out and the capital reserve will not be transferred into share capital. Utility Plan of the Undistributed Profit

1. To cover the losses in previous years.
2. To supplement the operation capital.

VIII. Report of Board of Supervisors

I. Works of Board of Supervisors

1. On April 11 of 2007, the 3rd Session of the 5th Board of Supervisors was held. During the meeting, the Report by the Board of Supervisors of 2006, the Report on the Annual Report of 2006 and its Summary were discussed and passed.

2. On June 29 of 2007, the 4th Session of the 5th Board of Supervisors was held.

3. On August 30 of 2007, the 5th Session of the 5th Board of Supervisors was held. During the meeting, the Interim report of the Company was discussed and passed.

4. On Oct 30 of 2007, the 6th Session of the 5th Board of Supervisors was held. During the meeting, the Third Quarter Report of the Company was discussed and passed.

5. On Dec 11 of 2007, the 7th Session of the 5th Board of Supervisors was held. During the meeting, the Report on Changing the Supervisor was discussed and passed.



IX. Significant Events

1. Significant Lawsuit or Arbitration

In the report period, no significant lawsuit or arbitration occurred in this Company.

2. Assets transaction

In the report period, the Company transferred house and buildings with the book value of RMB 462,648 thousand Yuan to HNA Group Co., Ltd. It's priced according to the market price and agreement price and it has been published on China Securities News, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po on Dec 12, 2007.

3. Important Connected Transactions

3.1 Routine Productive Connected Transaction

Connected transaction for purchasing goods or accepting services

Monetary unit: RMB 1,000 Yuan

Company	Nature of transaction	Principle for price	Trading Amount	Percentage to the Same Type of Transaction (%)	Settling mode
HNA Catering Co., Ltd	Catering Payment	Market price	32,523	13	Banking transfer
Hainan Meilan International Airport Co., Ltd.	Taking-off and landing services charges	Market Price	75,036	6.36	Banking transfer
Haikou Meilan International Airport Co., Ltd.	Taking-off and landing services charges	Market Price	23,593	2	Banking transfer
Sanya Phoenix International Airport Co., Ltd.	Taking-off and landing service charges	Market Price	27,289	2	Banking transfer
Hainan Haihang Aviation Imp. &Exp. Co., Ltd.	Aviation materials agency fees	Market price/ agreement price	21,179	100	Banking transfer
Hainan Meiya Industrial Co., Ltd.	Payment for aircrafts oil fees	Market price/ agreement price	361,085	9	Banking transfer

3.2 Connected transaction of Assets/Equity transfer

The Company transferred house and buildings to HNA Group Co., Ltd (shareholder) at a transaction price of 462,648 thousand Yuan. The principle for price is market price and agreement price, the book value of the assets is RMB 462,648 thousand Yuan. It has been published on China Securities News, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po on Dec 12, 2007.

3. The accounts receivable and payable with related parties

Monetary unit: RMB 10,000 Yuan

Company	Relationship with the Company Relationship with the Company	The Company's Funds provided for the related companies		The related companies' Funds provided for the Company	
		Current	Balance	Current	Balance
HNA Hotel Holding Co., Ltd	Other	82,928	82,928		
HNA Group Co., Ltd.	Other	59,545	59,545	-117	4
Hainan Haihang Imp. & Exp. Co., Ltd.	Other	19,141	20,000	11,657	11,657
Yangtze River Leasing Co., Ltd	Shareholder	-2	35,937	13,600	30,563
Shenzhen Finance Leasing Co., Ltd.	Other	2,400	2,400		
Hainan Provincial Imp. & Exp. Co., Ltd.	Other		639		
Haikou Hi-Tech Risk Investment Co., Ltd.	Other		500		
Hainan Meilan International Airport Co., Ltd.	Other			4,350	10,622
Hainan Meiya Industrial Co., Ltd.	Other			-671	8,058
Sanya Phoenix International Airport Co., Ltd.	Other			2,368	7,129
Hainan Tonghui Insurance Agency Co., Ltd.	Other			4,789	4,789
Hongkong Airlines	Other			3,929	3,929
Golden Deer VIP Flight Co., Ltd.	Other			2,102	3,905
Hongkong Express	Other			1,788	3,137
Hainan Air Catering Co., Ltd.	Other			148	1,820
Grand China Express Airlines Co., Ltd.	Other			10,080	12,728
Yangtze River International Leasing Co., Ltd.	Other			1,695	1,695
Grand China Air Co., Ltd.	Other			848	848
Yangtze River Express Aviation Co., Ltd.	Other			5,075	3
Yunnan Xiangpeng Airlines Co., Ltd.	Other			-1,741	28
HNA Group Finance Co., Ltd.	Other	502	7,312		
Haikou Meilan International Airport Co., Ltd.	Other			-8,217	
Lucky International Travel Agency Co., Ltd.	Other			-27	
Lucky Golden Deer Aviation Tourism Group	Other	-231			
HNA Hotel Co., Ltd.	Other	-0.3		-1,048	
Others		1,255	1,340	2,483	4,023
Total		165,538	210,600	42,941	104,938

The Company has made allowance for bad debts for the accounts receivable of RMB 11,358 thousand Yuan of Hainan Haihang Import & Export Trading Co., Ltd and Haikou High-tech Risk Investment Co., Ltd. The other accounts of connected claim and debt are formed due to the daily operation.

4. Trusteeship Situation

The Company has no trusteeship matter in 2007.

5. Contract-in Situation

The Company has no contract-in matter in 2007.

6. Leasing Situation

6.1 Hainan Airlines Co., Ltd leased aircrafts to Yunnan Lucky Air Co., Ltd with the amount of 138,278 thousand Yuan. The leasing term is from Jan 1, 2007 to Dec 31, 2007.

6.2 Hainan Airlines Co., Ltd leased aircrafts to Hong Kong Airlines Co., Ltd with the amount of 96,525 thousand Yuan. The leasing term is from Jan 1, 2007 to Dec 31, 2007.

6.3 Hainan Airlines Co., Ltd leased aircrafts to West Airlines Co., Ltd with the amount of 41,320 thousand Yuan. The leasing term is from June 14, 2007 to Dec 31, 2007.

6.4 Hainan Airlines Co., Ltd leased aircrafts to Grand China Air Co., Ltd with the amount of 15,739 thousand Yuan. The leasing term is from Nov 30, 2007 to Dec 31, 2007.

6.5 Hainan Airlines Co., Ltd leased aircrafts to Grand China Express Co., Ltd with the amount of 317,559 thousand Yuan. The leasing term is from April 1, 2007 to Dec 31, 2007.

6.6 Hainan Airlines Co., Ltd leased pilots to Yangtze River Express Co., Ltd with the amount of 11,041 thousand Yuan. The leasing term is from Jan 1, 2007 to Dec 31, 2007.

6.7 Hainan Airlines Co., Ltd leased pilots to Deer Jet Co., Ltd with the amount of 20,042 thousand Yuan. The leasing term is from Jan 1, 2007 to Dec 31, 2007.

6.8 Changjiang Leasing Co., Ltd leased aircrafts to Hainan Airlines Co., Ltd with the amount of 11,588 thousand Yuan. The leasing term is from Jan 1, 2007 to Dec 31, 2007.

6.9 Shen Zhen Finance Leasing Co., Ltd leased aircrafts to Hainan Airlines Co., Ltd with the amount of 10,193 thousand Yuan. The leasing term is from Jan 1, 2007 to Dec 31, 2007.

6.10 Yangtze River International Leasing Co., Ltd leased aircrafts to Hainan Airlines Co., Ltd with the amount of 53,151 thousand Yuan. The leasing term is from Jan 1, 2007 to Dec 31, 2007.

7. Guarantee Situation

In the report period, the total amount of guarantee of the Company for the subsidiaries is RMB 1.25 billion Yuan, the balance of guarantee for the subsidiaries is RMB 1.65257 billion Yuan. The total amount of guarantee including guarantee for subsidiaries is RMB 1.65257 billion Yuan.

8. Entrusted Financing

There is no entrusted financing in 2007.

9. Other important contract

There is no other important contract in 2007.

10. Execution of the promises

Promises of the Company and its shareholders holding more than 5% of the Company's total amount of shares in the report period or lasting to the report period

The promises and performance of G Share reform: The controlling shareholder, Grand China Air Company Limited promises that the shares held by it would not be circulated for three years after the stock right splitting reform. It had been carried out accordingly.

11. Remuneration and Engagement & Dismissal of the Accounting Firms

In the report period, the Company changed the accounting firm. The Company engaged the Shine Wing Certified Accountants as the domestic accounting firm in 2006. Now, the Company engaged PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd as the accounting firm of the Company.

Hainan Airlines Co. Ltd. is a company with both A-shares and B-shares publicly listed. Pursuant to the regulation of CSRC, since 2007, the Company will not engage the foreign accounting firm and engage PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd as the domestic accounting firm.

12. Penalty on the Company, the Board and the Directors and correction situation

On October 17, 2007, Hainan Securities Regulatory Bureau of CSRC issued the Notice on Rectification within Time Limit to the Company. On October 31, 2007, the Company held the second temporary Board meeting of 2007, deliberated and passed Rectification Report Concerning Corporate Governance of Hainan Airlines Co., Ltd, the related information has been published on the website of SSE.

On Jan 14, 2008, Hainan Securities Regulatory Bureau of CSRC issued the notice and required the Company to disclose the information of Grand China Air Co., Ltd, the

controlling shareholder of the Company. On Jan 25, 2008 the Company has released the announcement to disclose the Chinese name of Grand China Air Co., Ltd has been changed on Sep 10, 2007. Grand China Air has obtained the aviation operation license issued by CAAC on Sep 18, 2007 and operated six air routes including Beijing=Harbin, Beijing=Sanya, Beijing=Guilin, Beijing=Nanning, Beijing=Dalian and Beijing=Nanchang.

13. Other Important Events

In the report period, there are no other important events.

14. Index of Information Disclosure

Item	Newspapers for Information Disclosure	Date	Website
2006 Pre-announcement of Achievement	China Securities News, Shanghai Securities News, Securities Times, Wen Wei Po (Hong Kong)	Jan 23, 2007	http://www.sse.com.cn
Announcement of Connected Transaction	China Securities News, Shanghai Securities News, Securities Times, Wen Wei Po (Hong Kong)	April 13, 2007	http://www.sse.com.cn
Announcement of Resolutions of Board of Supervisors	China Securities News, Shanghai Securities News, Securities Times, Wen Wei Po (Hong Kong)	April 13, 2007	http://www.sse.com.cn
Notice of Convening the General Meeting of Shareholders	China Securities News, Shanghai Securities News, Securities Times, Wen Wei Po (Hong Kong)	April 13, 2007	http://www.sse.com.cn
Annual Report Summary	China Securities News, Shanghai Securities News, Securities Times, Wen Wei Po (Hong Kong)	April 13, 2007	http://www.sse.com.cn
Announcement of Resolutions of Board of Directors	China Securities News, Shanghai Securities News, Securities Times, Wen Wei Po (Hong Kong)	April 13, 2007	http://www.sse.com.cn
First Quarter Report	China Securities News, Shanghai Securities News, Securities Times, Wen Wei Po (Hong Kong)	April 28, 2007	http://www.sse.com.cn
Announcement of Resolutions of 2006 Annual General Meeting of Shareholders	China Securities News, Shanghai Securities News, Securities Times, Wen Wei Po (Hong Kong)	May 19, 2007	http://www.sse.com.cn
Announcement of Resolutions of Temporary Board Meeting	China Securities News, Shanghai Securities News, Securities Times, Wen Wei Po (Hong Kong)	June 30, 2007	http://www.sse.com.cn
Announcement of Resolutions of Board of Supervisors	China Securities News, Shanghai Securities News, Securities Times, Wen Wei Po (Hong Kong)	June 30, 2007	http://www.sse.com.cn
Announcement	China Securities News, Shanghai Securities News, Securities Times, Wen Wei Po (Hong Kong)	July 14, 2007	http://www.sse.com.cn
Pre-announcement of Achievement of 2007 Interim	China Securities News, Shanghai Securities News, Securities Times, Wen Wei Po (Hong Kong)	July 17, 2007	http://www.sse.com.cn
Interim Report Summary	China Securities News, Shanghai Securities News, Securities Times, Wen Wei Po (Hong Kong)	Aug 31, 2007	http://www.sse.com.cn
Announcement of Resolutions of Board of Directors	China Securities News, Shanghai Securities News, Securities Times, Wen Wei Po (Hong Kong)	Aug 31, 2007	http://www.sse.com.cn
Announcement of Listing of Shares with Trading Restriction	China Securities News, Shanghai Securities News, Securities Times, Wen Wei Po (Hong Kong)	Sep 25, 2007	http://www.sse.com.cn
Announcement of Holding Reduction of Tradable shares	China Securities News, Shanghai Securities News, Securities Times, Wen Wei Po (Hong Kong)	Oct 16, 2007	http://www.sse.com.cn
Announcement of Revising the Achievement of the Third Quarter of 2007	China Securities News, Shanghai Securities News, Securities Times, Wen Wei Po (Hong Kong)	Oct 25, 2007	http://www.sse.com.cn
Rectification Report Concerning Corporate Governance	China Securities News, Shanghai Securities News, Securities Times, Wen Wei Po (Hong Kong)	Oct 30, 2007	http://www.sse.com.cn
Third Quarter Report	China Securities News, Shanghai Securities News, Securities Times, Wen Wei Po (Hong Kong)	Oct 31, 2007	http://www.sse.com.cn

Notice of Convening the General Meeting of Shareholders	China Securities News, Shanghai Securities News, Securities Times, Wen Wei Po (Hong Kong)	Nov 1, 2007	http://www.sse.com.cn
Announcement of Resolutions of Board of Directors	China Securities News, Shanghai Securities News, Securities Times, Wen Wei Po (Hong Kong)	Nov 1, 2007	http://www.sse.com.cn
Announcement of Resolutions of First Temporary General Meeting of Shareholders of 2007	China Securities News, Shanghai Securities News, Securities Times, Wen Wei Po (Hong Kong)	Nov 17, 2007	http://www.sse.com.cn
Announcement of Resolutions of Board of Directors	China Securities News, Shanghai Securities News, Securities Times, Wen Wei Po (Hong Kong)	Nov 17, 2007	http://www.sse.com.cn
Supplementary Announcement of Rectification Plan Concerning Corporate Governance	China Securities News, Shanghai Securities News, Securities Times, Wen Wei Po (Hong Kong)	Nov 17, 2007	http://www.sse.com.cn
Notice of Convening the General Meeting of Shareholders	China Securities News, Shanghai Securities News, Securities Times, Wen Wei Po (Hong Kong)	Dec 12, 2007	http://www.sse.com.cn
Announcement of Resolutions of Board of Directors	China Securities News, Shanghai Securities News, Securities Times, Wen Wei Po (Hong Kong)	Dec 12, 2007	http://www.sse.com.cn
Announcement of Connected Transaction	China Securities News, Shanghai Securities News, Securities Times, Wen Wei Po (Hong Kong)	Dec 12, 2007	http://www.sse.com.cn
Announcement of Resolutions of Second Temporary General Meeting of Shareholders of 2007	China Securities News, Shanghai Securities News, Securities Times, Wen Wei Po (Hong Kong)	Dec 29, 2007	http://www.sse.com.cn



X. Financial Report

Report of Auditors (English Translation For Reference Only) PwC ZT Shen Zi (2008) No.10021

We have audited the accompanying financial statements of Hainan Airlines Company Limited (“the Company”) and its subsidiaries (together, the Group) which comprise the consolidated and the company balance sheets as at 31 December 2007, and the consolidated and the company income statements, the consolidated and the company cash flow statements and the consolidated and the company statements of changes in equity for the year then ended and notes to these financial statements.

I. Management’s Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements in accordance with the Accounting Standards for Business Enterprises. This responsibility includes:

- 1) designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- 2) selecting and applying appropriate accounting policies; and
- 3) making accounting estimates that are reasonable in the circumstances.

II. Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the China Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness

of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

III. Opinion

In our opinion, the accompanying consolidated and the company financial statements present fairly, in all material respects, the financial position of the Group and the Company as of 31 December 2007, and of their financial performance and their cash flows for the year then ended in accordance with the Accounting Standards for Business Enterprises.

PricewaterhouseCoopers Zhong Tian CPAs Limited Company

Shanghai, China

24 March 2008



CONSOLIDATED AND COMPANY BALANCE SHEETS AS AT 31 DECEMBER 2007

(All amounts in RMB Thousand Yuan unless otherwise stated)

ASSETS	Notes	31 December 2007 The Group	31 December 2006 The Group	31 December 2007 The Company	31 December 2006 The Company
Current assets					
Cash at bank and on hand	7(1)	7,930,856	9,531,856	4,613,814	5,962,044
Accounts receivable	7(2), 10(1)	463,859	648,219	405,481	991,275
Advances to suppliers	7(3)	1,780,238	112,339	1,765,323	95,655
Interest receivable		73,118	68,091	48,225	48,164
Dividends receivable		2,271	-	2,271	-
Other receivables	7(2), 10(1)	1,285,272	1,322,632	1,555,812	757,173
Inventories	7(4)	261,838	296,819	252,017	285,026
Total current assets		11,797,452	11,979,956	8,642,943	8,139,337
Non-current assets					
Long-term equity investments	7(5), 10(2)	758,711	794,232	2,721,901	2,674,619
Fixed assets	7(6)	19,377,612	19,804,353	14,769,764	14,833,954
Construction in progress	7(7)	6,891,808	2,047,467	5,729,218	1,237,089
Intangible assets	7(8)	282,940	288,015	150,070	151,737
Goodwill	7(9)	119,392	94,143	-	-
Long-term prepaid expenses	7(10)	258,136	342,000	167,840	229,369
Deferred tax assets	7(23)	52,149	41,596	28,389	13,488
Other non-current assets	7(11)	301,746	355,654	211,318	227,834
Total non-current assets		28,042,494	23,767,460	23,778,500	19,368,090
TOTAL ASSETS		39,839,946	35,747,416	32,421,443	27,507,427

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CONSOLIDATED AND THE COMPANY BALANCE SHEETS AS AT 31 DECEMBER 2007 (CONTINUED)

(All amounts in RMB Thousand Yuan unless otherwise stated)

LIABILITIES AND OWNERS' EQUITY	Notes	31 December 2007 The Group	31 December 2006 The Group	31 December 2007 The Company	31 December 2006 The Company
Current liabilities					
Short-term borrowings	7(12)	7,465,545	5,958,714	4,783,545	2,583,750
Notes payable	7(13)	1,121,632	1,958,706	804,780	1,598,240
Accounts payable	7(14)	2,954,501	2,902,284	4,036,367	3,630,889
Employee benefits payable	7(15)	120,318	72,401	71,627	42,063
Taxes payable	7(16)	159,084	69,488	124,265	33,528
Advances from customers		24,891	27,323	22,132	22,132
Interest payable		65,474	64,768	56,281	58,542
Dividends payable	7(17)	19,426	19,426	19,426	19,426
Other payables	7(18)	1,254,855	937,394	677,370	295,627
Current portion of non-current borrowing	7(20)	1,518,618	1,564,587	1,062,232	1,315,159
Current portion of long-term payables	7(21)	554,289	344,427	364,874	146,689
Other current liabilities	7(19)	654,835	680,741	-	602
Total current liabilities		15,913,468	14,600,259	12,022,899	9,746,647
Non-current liabilities					
Long-term borrowings	7(20)	13,540,526	11,265,883	10,793,591	8,644,695
Long-term payables	7(21)	1,844,562	1,972,135	1,431,097	1,485,149
Special accounts payable		20,000	20,000	-	-
Other non-current assets	7(22)	85,956	107,296	72,306	92,509
Total non-current assets		15,491,044	13,365,314	12,296,994	10,222,353
Total liabilities		31,404,512	27,965,573	24,319,893	19,969,000
Owners' equity					
Paid-in capital	7(24)	3,530,253	3,530,253	3,530,253	3,530,253
Capital surplus	7(25)	3,854,143	3,854,901	3,850,886	3,850,886
Surplus reserve	7(26)	169,098	169,098	169,098	169,098
Undistributed profits / (Accumulated losses)		106,912	(544,475)	551,313	(11,810)
Total equity attributable to equity holders of the Company		7,660,406	7,009,777	8,101,550	7,538,427
Minority interest	7(27)	775,028	772,066	-	-
Total owners' equity		8,435,434	7,781,843	8,101,550	7,538,427
TOTAL LIABILITIES AND OWNER'S EQUITY		39,839,946	35,747,416	32,421,443	27,507,427

The accompanying Notes form an integral part of these financial statements.

CONSOLIDATED AND COMPANY INCOME STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

(All amounts in Rmb Yuan unless otherwise stated)

Items	Notes	31 December 2007 The Group	31 December 2006 The Group	31 December 2007 The Company	31 December 2006 The Company
Revenue	7(28), 10(3)	13,556,798	12,774,728	8,416,316	6,956,763
Less: Cost of sales	7(28), 10(3)	(10,594,519)	(10,433,463)	(6,611,698)	(5,804,489)
Tax and levies on operations	7(29)	(429,020)	(399,648)	(253,059)	(203,826)
Selling and distribution expenses		(624,692)	(550,035)	(389,081)	(275,489)
General and administrative expenses		(514,770)	(459,890)	(250,636)	(211,086)
Finance expenses – net	7(30)	(811,487)	(863,981)	(446,781)	(467,800)
Asset impairment losses	7(31)	(8,146)	39,236	(5,515)	67,829
Add: Investment income	7(32), 10(4)	13,216	(636)	4,392	5,472
Including: Share of profit of associates and joint ventures		5,276	(8,831)	1,453	679
Operating profit		587,380	106,311	463,938	67,374
Add: Non-operating income	7(33)	131,346	121,198	103,552	90,596
Less: Non-operating expenses	7(33)	(5,382)	(29,327)	(3,841)	(12,809)
Including: Losses on disposal of non-current assets		(1,934)	(27,454)	(1,564)	(6,147)
Total profit		713,344	198,182	563,649	145,161
Less: Income tax expenses	7(34)	(5,018)	(15,459)	(526)	(15,322)
Net profit		708,326	182,723	563,123	129,839
Attributable to equity holders of the Company		651,387	166,755	563,123	129,839
Minority interest		56,939	15,968	-	-
Earnings per share for the profit attributable to the shareholders of the Company during the year					
- basic	7(35)	0.18	0.06		
- diluted	7(35)	0.18	0.06		

The accompanying Notes form an integral part of these financial statements.

CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

(All amounts in RMB Yuan unless otherwise stated)

Items	Notes	31 December 2007 The Group	31 December 2006 The Group	31 December 2007 The Company	31 December 2006 The Company
Cash flows from operating activities					
Cash received from sales of goods or rendering of services		13,858,919	12,094,498	9,045,488	6,401,704
Cash received relating to other operating activities		1,643,090	1,769,041	446,178	11,067,419
Sub-total of cash inflows		15,502,009	13,863,539	9,491,666	17,469,123
Cash paid for goods and services		(9,981,217)	(5,851,960)	(6,679,956)	(12,501,261)
Cash paid to and on behalf of employees		(790,213)	(759,765)	(499,521)	(119,678)
Payments of taxes and levies		(422,502)	(730,085)	(203,723)	(409,421)
Cash paid relating to other operating activities	7(36)(e)	(1,398,971)	(1,521,856)	(485,946)	(923,312)
Sub-total of cash outflows		(12,592,903)	(8,863,666)	(7,869,146)	(13,953,672)
Net cash flows from operating activities		2,909,106	4,999,873	1,622,520	3,515,451
Cash flows from investing activities					
Cash received from disposal of investments		36,751	31,050	28,666	1,050
Cash received from returns on investments		6,417	5,049	2,431	2,252
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		1,338,255	30,895	599,026	30,891
Cash received relating to other investing activities		115,983	-	62,737	-
Sub-total of cash inflows		1,497,406	66,994	692,860	34,193
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(6,262,257)	(2,930,129)	(5,614,666)	(2,413,306)
Cash paid to acquire investments		(4,362)	(42,637)	(4,362)	(18,638)
Net cash paid to acquire subsidiaries and other business units		(79,984)	-	(79,984)	-
Cash paid relating to other investing activities		(1,424,730)	(576,753)	(1,424,730)	184,162
Sub-total of cash outflows		(7,771,333)	(3,549,519)	(7,123,742)	(2,247,782)
Net cash flows from investing activities		(6,273,927)	(3,482,525)	(6,430,882)	(2,213,589)
Cash flows from financing activities					
Cash received from capital contributions		-	4,106,000	-	4,100,000
Including: Cash received from capital contributions by minority shareholders of subsidiaries		-	6,000	-	-
Cash received from borrowings		14,345,836	10,217,305	12,093,849	5,965,492
Sub-total of cash inflows		14,345,836	14,323,305	12,093,849	10,065,492
Cash repayments of borrowings		(10,258,887)	(8,019,304)	(7,517,273)	(4,832,585)
Cash repayments of finance lease		(454,102)	(3,851,185)	(286,167)	(3,208,872)
Cash payments for interest expenses and distribution of dividends or profits		(1,064,440)	(1,085,448)	(839,813)	(755,852)
Sub-total of cash outflows		(11,777,429)	(12,955,937)	(8,643,253)	(8,797,309)
Net cash flows from financing activities		2,568,407	1,367,368	3,450,596	1,268,183
Effect of foreign exchange rate changes on cash and cash equivalents					
		(18,955)	(32,139)	(18,901)	(31,889)

Net increase in cash and cash equivalents	7(36)	(815,369)	2,852,577	(1,376,667)	2,538,156
Add: Cash and cash equivalents at beginning of year	7(36)	8,256,171	5,403,594	5,617,087	3,078,931
Cash and cash equivalent at end of year	7(36)	7,440,802	8,256,171	4,240,420	5,617,087

The accompanying Notes form an integral part of these financial statements.



CONSOLIDATED STATEMENT OF CHANGES IN OWNER'S EQUITY FOR THE YEAR ENDED 31 DECEMBER 2007

(All amounts in RMB Yuan unless otherwise stated)

Items	Note	Attributable to equity holders of the Company				Minority interest	Total owners' equity
		Paid-in capital	Capital surplus	Surplus reserves	Undistributed profits		
Balance at 31 December 2005		730,253	2,558,885	169,098	(745,260)	750,660	3,463,636
Effect of first-time adoption of the CAS		-	-	-	34,030	(235)	33,795
Balance at 1 January 2006		730,253	2,558,885	169,098	(711,230)	750,425	3,497,431
Movement for the year ended 31 December 2006							
Net profit		-	-	-	166,755	15,968	182,723
Gains or losses recognized directly in owners' equity							
Capital premium		-	2,800,000	-	-	-	2,800,000
Transfer from capital surplus to paid-in capital		1,500,000	(1,500,000)	-	-	-	-
Others		-	(3,984)	-	-	-	(3,984)
Sub-total		1,500,000	1,296,016	-	-	-	2,796,016
Capital contribution and withdrawal by owners							
Capital contribution by owners		1,300,000	-	-	-	5,673	1,305,673
Balance at 31 December 2006		3,530,253	3,854,901	169,098	(544,475)	772,066	7,781,843
Balance at 1 January 2007		3,530,253	3,854,901	169,098	(544,475)	772,066	7,781,843
Movement for the year ended 31 December 2007							
Net profit		-	-	-	651,387	56,939	708,326
Acquisition of minority interests (Note 8)		-	(758)	-	-	(53,977)	(54,735)
Balance at 31 December 2007		3,530,253	3,854,143	169,098	106,912	775,028	8,435,434

The accompanying Notes form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN OWNER'S EQUITY FOR THE YEAR ENDED 31 DECEMBER 2007

(All amounts in RMB Yuan unless otherwise stated)

Items	Note	Paid-in capital	Capital surplus	Surplus reserves	Undistributed profits	Total owners' equity
Balance at 31 December 2005		730,253	2,558,885	169,098	(730,009)	2,728,227
Effect of first-time adoption of the CAS		-	(4,015)	-	588,360	584,345
Balance at 1 January 2006		730,253	2,554,870	169,098	(141,649)	3,312,572
Movement for the year ended 31 December 2006						
Net profit		-	-	-	129,839	129,839
Gains or losses recognized directly in owners' equity						
Capital premium		-	2,800,000	-	-	2,800,000
Transfer from capital surplus to paid-in capital		1,500,000	(1,500,000)	-	-	-
Others		-	(3,984)	-	-	(3,984)
Sub-total		1,500,000	1,296,016	-	-	2,796,016
Capital contribution and withdrawal by owners						
Capital contribution by owners		1,300,000	-	-	-	1,300,000
Balance at 31 December 2006		3,530,253	3,850,886	169,098	(11,810)	7,538,427
Balance at 1 January 2007		3,530,253	3,850,886	169,098	(11,810)	7,538,427
Movement for the year ended 31 December 2007						
Net profit		-	-	-	563,123	563,123
Balance at 31 December 2007		3,530,253	3,850,886	169,098	551,313	8,101,550

The accompanying Notes form an integral part of these financial statements.

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1. General information

Hainan Airlines Company Limited recognized from the former(“the Company”) was a joint stock limited company whose origins trace back to the formation of State Owned Hainan Airlines. The promoters of the Company comprised 24 legal enterprises, including the State owned company, China Everbright International Trust and Investment Co. Ltd, Hainan Branch, Bank of Communication, Hainan Aviation Import & Export Co., Ltd.(“Hainan Trading”), etc. The Company obtained its business license on 8 January 1993 and was named as “Hainan Airlines Company Limited”. The registered share capital was 250,100,000, and the total amount of shares was 250,100,000 with par share value 1.00 for each.

The scrip dividend for 1993 was approved by the resolution of the 2nd general meeting of shareholders held in March 1994. 50,020,000 shares were distributed and the total capital had increased to 300,120,000.

Pursuant to the approval of the Ministry of Foreign Trade and Economic Cooperation of PRC by its circular Wai Jing Mao Yi Han Zi No.[1995]615 on 2 November 1995, the Company issued 100,040,001 shares to American Aviation LDC at a price of USD 0.25 per share with a par value of 1.00 each. The company was changed into a Sino-foreign joint stock company limited after the issuance of shares. Among the total raised fund USD 25,000,000 (equivalent to 207,905,000), 100,040,001 was recognized as share capital and the remaining amount of 70,177,849.79 was recognized as capital reserve after deducting the related issuing expenses. The Company obtained a new business license in November 1996 after increasing its share capital stated above. Also its name has been changed to Hainan Airlines Company Limited and the registered capital was RMB 400,160,001.

Pursuant to the approval of China Securities Regulatory Commission by its circular Zheng Wei Fa No. [1997]24, the Company issued 71,000 thousand B Shares at a premium price of USD 0.47 per share with a par value of 1.00 each on 18 April 1997. Among the total raised fund USD 33,370,000 (equivalent to 276,690,000), 71,000,000 was recognized as share capital and the remaining amount of 186,822,000 was recognized as capital reserve after deducting the related issuing expenses. Following the widely public issuance, the paid-in capital was remarkably raised to RMB471,160,001 in total.

Pursuant to the approval of China Securities Regulatory Commission by its circular Zheng Jian Fa Xing Zi No. [1999]129, the Company issued 205 Ordinary Shares (A Shares) at an issue price of 4.6 Yuan per share with a par value of 1.00 each to the

public. Among the total raised fund 943,000,000, 205,000,000 was recognized as share capital and the remaining amount of 708,745,226 was recognized as capital reserve after deducting the related issuing expenses. Following the issuance, the paid-in capital was remarkably raised to RMB676,160,001 in total.

In accordance with the profit appropriation resolution for year 1999 approved by the general meeting of shareholders on 18 May 2000, the Company distributed stock dividend at 0.8 shares per ten shares (on the basis of total number of shares 676,160,000) and cash dividend 1.00 (tax included) to all shareholders with total amount of RMB 54,092,800 and RMB 67,616,000 respectively. The share capital of the Company increased to RMB 730,252,801 thereafter.

According to China Securities Regulatory Commission [2005] No. 50 Document “Notification about Hainan Airline Co., Ltd. directionally issue more stocks”, as well as the decision of the first temporary shareholders meeting in 2005, which held in May 24th, 2005, the Company directionally increasing issued less than 28 billion corporation shares. The Company completed the entire issue proceeding at 2 Yuan RMB per share in June 29th, 2006, and raised 5,600,000,000 Yuan RMB in all. Among these, issues 1,650,000,000 shares to Xinhua Holding; 450,000,000 shares to Haikou Meilan International Airport Co., Ltd.; 300,000,000 shares to Changjiang Leasing Co., Ltd.; 240,000,000 shares to Hainan Jiaxin Investment Management Co., Ltd.; 150,000,000 shares to Sanya Phoenix International Airport Co., Ltd.; 10,000,000 shares to Hainan Taiheng Industry Co., Ltd. Meanwhile, the Company’s capital stocks increased to 3,530,252,801.00 Yuan RMB after this directionally increasing issue and shares transfer. Therefore, Xinhua Airline Holding Co., Ltd. became the biggest shareholders with 48.24% shares of the Company. The above-mentioned increasing issued shares have completed the capital changing registration procedure at China Securities Registration and Liquidation Company, Shanghai Branch at June 29, 2006.

According to Hainan Stated-owned Assets Supervision and Administration Commission [2006] No. 330 Document “the Approval over the Share Restructuring Scheme by Hainan Airlines Company Limited”, the Company went the share restructuring scheme. Under the scheme, the shareholders of the non-public shares offered the listed A share shareholders 122,746,062 shares of non-public shares, set as 3.3 per 10 listed A shares, in return for the conversion of the non-public shares into listed A shares on the registration date. After the allocation and reformation of shares, the Grand China tended to hold 48.24% shares of the Company. Since 20 September 2006, all company share free flow and restricted shares could be traded in the market after the lock up period, including 2,850,826,000 restricted shares, 679,427,000 free

flow shares. On 8th October 2007, 727,786,000 shares out of 2,850,826,000 shares have converted into free flow shares and traded in the market. After this conversion, the total free flow shares are 2,123,040,000, and restricted shares are 1,407,213,000 within 1,222,490,000 A shares and 184,723,000 B shares.

In December 2006, Grand China Airlines Company Limited (hereinafter referred to “Grand China”) received new equity investments of 8,917,118 shares held by Hainan Airlines Group Co. Ltd.(“HNA Group”) in Hainan Airlines Company and 4,369,582 shares held by Hainan Qixing Industrial Investment Company Limited (“Hainan Qixing”) in the Company. The registration of shares rights reformed had been terminated effective December 14, 2006. Proceeds from capital injection, the Grand China held 48.62% shares of the Company.

On 28 April 2007, Sanya Phoenix International Airport Company Limited (“Sanya Phoenix Airport”) and Hainan Airlines Industrial Holding Co. Ltd (Hainan Industrial”) reached “Shares Transfer Agreement” that will relocate to transfer 4.07% of shares in the Company, namely 143,808,150 shares, from the former to the latter . The registration of shares rights reformed had been terminated effective August 3, 2007.

The Company and its subsidiaries (collectively referred as “the Group” hereafter) are mainly engaged in Civil Aviation industry, with an approved scope of business including transporting domestic and international passengers, cargo and providing other related services.

The financial statements were authorized for issue by the board of directors on 24 March 2008.

2. Basis of preparation

The Group originally prepared financial statements in accordance with the “Accounting System for Business Enterprises” issued on 29 December 2000 and the Accounting Standards for Business Enterprises and other regulations applicable to the Group that were issued before 15 February 2006 (hereafter referred to as “Previous Accounting Standards and System”). On 1 January 2007, the Group adopted the Basic Standard and 38 specific standards of Accounting Standards for Business Enterprises issued by Ministry of Finance on 15 February 2006, Application Guidance of Accounting Standard for Business Enterprises, Interpretation of Accounting Standards for Business Enterprises and other regulations issued thereafter (hereafter referred to as “the Accounting Standard for Business Enterprises”, “China Accounting Standards” or “CAS”). The financial statements for the year ended 31 December 2007 are the Group’s first

annual financial statements prepared in accordance with CAS.

The group is a B listed company that formerly prepared financial statements in respective accordance with PRC GAAP and International Financial Report Standards. On 1 January 2007, the first-time adoption date of CAS, the Group made retrospective adjustments in accordance with the requirements relating to the first-time adoption of CAS stipulated in “Accounting Standard for Business Enterprises No. 38—First-time Adoption of Accounting Standards for Business” and “ Interpretation No. 1 of Accounting Standards for Business Enterprises”. The comparative figures in respect of 2006 were retrospectively adjusted and restated to reflect these adjustments in accordance with CAS. The retrospective adjustments mainly include the following items:

1) The balance of the equity investment differences arising from a business combination involving enterprises under common control and the credit balance of the equity investment differences included in the long-term equity investment accounted for using equity method of accounting are fully derecognised.

2) Goodwill arising from business combination involving entities under no common control is tested for impairment loss on reasonable basis regularly.

3) Deferred tax assets and deferred tax liabilities are recognized for the temporary differences arising from the difference between the carrying amount of assets and liabilities and their tax base, and for deductible losses and tax credits that can be carried forward to the future years.

4) The long-term equity investments in subsidiaries are adjusted retrospectively in the Company’s individual financial statements, as if it had been accounted for using cost method of accounting at initial recognition.

The reconciliation from the consolidated owners’ equity as at 1 January and 31 December 2006 and the consolidated net profit for the year ended 31 December 2006 presented in accordance with Previous Accounting Standards and System to those presented in accordance with CAS is set out in Note 13.

As at 31 December 2007, the Group had net current liabilities of RMB 4 billion. The directors of the Company have assessed and are confident that the Group can continue as a going concern based on such facts and conditions that

- the Group could generate the positive and ever growing operating cash flows
- the Group has maintained good relationship with banks so the Group has never met any difficulty in renewing banking facilities.

The Management has prepared a cash flow forecast for the coming twelve months since the financial statements were authorized for issue. Considering the optimistic cash flow forecast and the unutilized banking facilities, the Management is convinced that the Group has ability to repay its debts and to fulfill its capital commitment in the foreseeable future. Hence, the directors of the Company are satisfied that it is appropriate to prepare the consolidated financial statements of the Group on a going concern basis.

3. Statement of compliance with the Accounting Standards for Business Enterprises.

The consolidated and the company's financial statements for the year ended 31 December 2007 truly and completely present the financial position of the Group and the Company as of 31 December 2007 and of their financial performance and their cash flows for the year then ended in compliance with the Accounting Standards for Business Enterprises.

4. Summary of significant accounting policies and accounting estimates

(1) Accounting period

The Company's accounting year starts on 1 January and ends on 31 December.

(2) Recording currency

The recording currency is Renminbi (RMB)

(3) Foreign currency translation

Foreign currency transactions are translated into RMB using the exchange rates prevailing at the dates of the transactions.

At the balance sheet date, monetary items denominated in foreign currency are translated into RMB using the spot exchange rate at the balance sheet date. Exchange differences arising from these translations are recognised in profit or loss for the current period, except for those attributable to foreign currency borrowings that have been taken out specifically for the acquisition, construction or production of qualifying assets, which are capitalised as part of the cost of those assets. Non-monetary items denominated in foreign currency that are measured in terms of historical cost are translated at the balance sheet date using the spot exchange rate at the date of the transaction.

(4) Cash and cash equivalents

For the purpose of the cash flow statement, cash comprises cash in hand and

deposits held at call with bank. Cash equivalents refer to short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(5) Financial assets

Financial assets are classified into the following categories at initial recognition: financial assets at fair value through profit or loss, receivables, available-for-sale financial assets and held-to-maturity investments. The classification of financial assets depends on the Group's intention and ability to hold the financial assets.

(a) Receivables

Receivables, including Notes receivable, accounts receivable, interest receivable and other receivables, are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group currently only includes accounts receivable and other receivables. The detailed accounting policy refers to Note 4 (7).

(b) Recognition and measurement

Financial assets are recognised at fair value on the balance sheet when the Group becomes a party to the contractual provisions of the financial instrument. In the case of financial assets at fair value through profit or loss, related transaction costs are recognised in profit or loss for the current period. For other financial assets, transaction costs that are attributable to the acquisition of the financial assets are included in their initial recognition amounts. Financial assets are derecognised when the contractual rights to receive the cash flows from the financial assets have expired, or all substantial risks and rewards of ownership of the financial assets have been transferred to the transferee.

The balances on accounts receivable should be measured by introducing timely and effective exchange rates to amortise costs.

(c) Impairment of financial assets

The Group assesses the carrying amount of a financial asset other than that at fair value through profit or loss at each balance sheet date. If there is objective evidence that the financial asset is impaired, the Group shall determine the amount of any impairment loss.

If an impairment loss on a financial asset carried at amortised cost has been incurred, the amount of loss is measured as the difference between the asset's carrying

amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). If there is objective evidence that the value of the financial asset recovered and the recovery is related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed and the amount of reversal is recognized in profit or loss.

(6) Receivables

Receivables comprise accounts receivable and other receivables. Accounts receivable arising from sale of goods or rendering of services are initially recognized at fair value by the Group in accordance with the consideration receivable from the buyer under contract or agreement. Receivables are presented at amortised cost using the effective interest method net of provision for bad debts.

Receivables that are individually significant are subject to individual impairment assessment, if there is objective evidence that the Group will not be able to collect the full amounts according to the original terms, a provision for impairment of the receivable is established at the difference between the carrying amount of the receivable and the present value of estimated future cash flows.

Receivables that are not individually significant together with those receivables that have been individually evaluated for impairment and found not to be impaired are grouped on the basis of similar credit risk characteristics. The impairment losses for the current year are determined, considering the current conditions, on the basis of historical loss experience for the groups of receivables with the similar credit risk characteristics.

(7) Inventories

Inventory comprises mainly aviation consumables, aviation on-board supplies and low value consumables, and. The aviation consumables are presented at planned price, and the difference between planned price and actual cost is considered as 'Materials Cost Variance'. The aviation on-board supplies and low value consumables are recognized at actual cost.

Aviation consumables are initially charged to cost of sales at planned price when put into use. While at month ends, an overall "Materials Cost Variance" is computed, and relevant adjustment will be made to cost of sales accordingly.

Aviation on-board supplies and low value consumables are charged to cost at actual price. Cost of aviation on-board supplies is determined using the weighted average method; whereas low value consumables are amortized in straight-line method, except for uniform, which is amortized in fifty-fifty method.

Provisions for declines in the value of inventories are determined when the carrying value of the inventories is higher than their net realizable value. Generally provisions are accrued on individual basis. However, it is very probable that a great amount of inventories items are of similar nature and usage, and are produced and sold in the same region, making it extremely difficult or inefficient to distinguish the items from one another. In that case, provisions can be accrued collectively. As for inventories of large quantity but lower unit price, the provision can be determined by particular category. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and relevant taxes.

The Group adopts the perpetual inventory system.

(8) Long-term equity investments

Long-term equity investments comprise the Company's equity investments in its subsidiaries, the Group's equity investments in its joint ventures and associates as well as the long-term equity investments where the Group does not have control, joint control or significant influence over the investees, and which are not quoted in an active market and whose fair value cannot be reliably measured.

(a) Subsidiaries

Subsidiaries are all entities over which the Group is able to control, i.e. has the power to govern the financial and operating policies so as to obtain benefits from their operating activities. The existence and effect of potential voting rights derived from the convertible bonds and warrants that are currently convertible or exercisable are considered when assessing whether the Group has control over the investee entity. The Company accounts for investments in subsidiaries using the cost method in its individual financial statements, and makes the appropriate adjustments using equity method when preparing the consolidated financial statements.

Under the cost method of accounting, long-term equity investments are measured at the initial investment cost. Investment income is recognised when the investees declare cash dividends or profit distribution. Investment income is recognised only to the extent of the distributions received from accumulated profits of the investees arising after the investment was made. Cash dividends or distributions received in excess of such profits are regarded as a recovery of the initial cost of the investments.

(b) Associates

Associates are all entities over which the Group has significant influence on their

financial and operating policies.

Investments in associates are initially measured at the actual costs and subsequently accounted for using the equity method. Where the initial investment cost exceeds the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the excess is included in the initial investment cost. Where the initial investment cost is less than the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the difference is included in profit or loss for the current period and the cost of the long-term equity investment is adjusted accordingly.

When using the equity method of accounting, the Group recognised the investment income based on its share of net profit or loss of the investee. The Group discontinues recognising its share of net losses of an investee after the carrying amount of long-term equity investment together with any long-term interests that, in substance, form part of the investor's net investment in the investee are reduced to zero. However, if the Group has incurred obligations for additional losses and the conditions on recognition of provision are satisfied in accordance with the accounting standard on contingencies, the Group continues recognising the investment losses and the provision. Under the circumstance that the Group's proportion of shareholding in an investee remains unchanged, the Group shall record directly in capital surplus its share of the changes in the investee's owner's equity other than those arising from net profit or loss. The carrying amount of the investment is reduced by Group's share of the profit or cash dividends declared by an investee. The profits or losses arising from the intra-group transactions between the Group and its investees are eliminated to the extent of the Group's interest in the investees, on the basis of which the investment income or losses are recognised. The Loss on the intra-group transaction between the Group and its investees, of which the nature is asset impairment, is recognised in full amount, and the relevant unrealised gain or loss is not allowed to be eliminated.

(c) Other long-term equity investments

Other long-term equity investments where the Group does not have control, joint control or significant influence over the investee, and which are not quoted in an active market and whose fair value cannot be reliably measured are accounted for using the cost method.

(d) Impairment of long-term equity investments

If the recoverable amount of long-term equity investments is less than its carrying amount, the carrying amount of the investment is written down to its recoverable

amount (Note 4 (15)).

(9) Fixed assets

Fixed assets comprise plants and buildings, aircrafts and engines, high-price rotatable spares, motor vehicles, and machinery and equipment. Fixed assets purchased or constructed by the Group are initially measured at cost at the time of acquisition.

Subsequent expenditures incurred for a fixed asset are included in the cost of the asset when it is probable that economic benefits associated with the fixed asset will flow to the Group and its cost can be reliably measured. The carrying amount of those parts that are replaced is derecognised.

All other subsequent expenditures are recognized in profit or loss in the period in which it is incurred.

Fixed assets are depreciated using the straight-line method to allocate the cost of the assets to their estimated residual values over their estimated useful lives. For the fixed assets being provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives.

The estimated useful lives, the estimated residual values expressed as a percentage of cost and the annual depreciation rates are as follows:

	Estimated useful lives	Estimated residual value	Annual Depreciation rate
Plant and buildings	40 years	5%	2.375%
Aircraft and engines	10-20 years	5%	4.75% to 9.5%
Motor vehicles	10 years	5%	9.5%
High-price aviation rotatables	10-15 years	5%	6.33% to 9.5%
Machinery and equipment	8-14 years	5%	6.78% to 11.875%

The estimated useful life, the estimated net residual value of a fixed asset and the depreciation method applied to the asset are reviewed, and adjusted if appropriate at least at each financial year-end.

When the recoverable amount of a fixed asset is less than its carrying amount, the carrying amount of the asset is written down to its recoverable amount (Note 4 (15)).

A fixed asset classified as an asset held for sale is presented at the lower of the carrying amount and the fair value less costs to sell. An excess of the original carrying amount over the fair value less the costs to sell is as accounted for as an asset impairment loss.

The carrying amount of a fixed asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The amount of proceeds on sale, transfer, retirement or damage of a fixed asset net of its carrying amount and related taxes and expenses is recognized in profit or loss for the current period.

(10) Construction in progress

Construction in progress is measured at actual cost. The actual cost comprises construction costs and other costs necessarily incurred to bring construction to get ready for its intended use. Borrowing costs that are eligible for capitalization are capitalized as part of the cost of assets until the assets are ready for their intended use. Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation begins from the following month.

If the recoverable amount of construction in progress is less than its carrying amount, the carrying amount of the asset is written down to its recoverable amount (Note 4 (15)).

(11) Intangible assets

Intangible assets here stand for land use rights, which are measured at actual cost.

Land use rights are amortised on the straight-line basis over the period of the land use rights of 40~50 years. If it is impracticable to allocate the amount paid for the purchase of land use rights and buildings between the land use rights and the buildings on a reasonable basis, the entire amount is accounted for as fixed assets.

If the recoverable amount of an intangible asset is less than its carrying amount, the carrying amount of the asset is written down to its recoverable amount (Note 4 (15)).

The estimated useful life and amortization method for an intangible asset with an indefinite useful life is reviewed, and adjusted if appropriate at each financial year-end.

(12) Goodwill

Goodwill refers to the excess of the cost of an equity investment in an investee over the interest in the fair value of the investee's identifiable net assets at the date the investment is acquired, or the excess of the cost of a business combination involving enterprises not under common control over the interest in the fair value of the acquirees' identifiable net assets acquired in the business combination at the acquisition date.

Goodwill arising from a business combination is separately presented in consolidated financial statements. The excess of the cost of the equity investments in acquisitions of associates and joint ventures over the fair value of the Group's share of

the investees' identifiable net assets at the time of the acquisition is included in the long-term equity investments.

Goodwill arising from a business combination is tested for impairment annually at least. When performing the impairment test, the carrying amount of goodwill is allocated to asset groups or sets of asset groups that are expected to benefit from the synergies of the business combination. Impairment of assets groups or sets of asset groups refers to Note 4(15). Goodwill is presented at cost less the cumulative impairment loss at year-end.

(13) Long term prepaid expenses

Long-term prepaid expenses incorporate the direct costs in relation to modifying and certifying certain operating leased or financial leased aircrafts, costs on pilot recruiting and training, expenses on improvement and enhancement of operating leased fixed assets, and assured expenses that the amortization period is over one year. Long term prepaid expenses are amortized on basis of benefit period while they are recorded as net amount in the statement when accumulated amortization is deducted from actual expense.

(14) Sales with leaseback transactions

(a) Leaseback defined as financial lease

The losses or gains arisen from the aircraft and engine sale with leaseback transactions is recognized as deferred assets, which is amortized over the useful life of the fixed assets by progress of depreciation and charged to profit and loss as an adjustment to depreciation expenses.

(b) Leaseback defined as operating lease

The losses or gains arisen from the aircraft and engine sale with leaseback transactions are recognized as deferred assets, which is amortized in a method consistent with the recognition of lease cost over the lease period.

Nonetheless, should it be proved by conclusive evidence that the transaction is settled with a fair value, the difference between sales price and book value is recognized as profit or loss of current period.

(15) Impairment of assets

Goodwill that is separately presented in the financial statements is tested for impairment annually at least, irrespective of whether there is any indication that the assets may be impaired. A fixed asset, an intangible asset, an investment property

under the cost model and a long-term equity investment are tested for impairment if there is any indication that an asset may be impaired at the balance date. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, a provision for impairment and an impairment loss are recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. A provision for asset Impairment is determined and recognized on an individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of the group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Once an impairment loss of these assets is recognized, it is not allowed to be reversed, even if the value of such asset is recovered in the subsequent periods.

(16) Borrowing costs

The borrowing costs that are directly attributable to the acquisition and construction of a fixed asset that necessarily takes a substantial period of time for acquisition and construction to get ready for its intended use are capitalized as part of the cost of the asset only when capital expenditures for the asset and borrowing costs have been incurred, and the activities of acquisition and construction necessary to prepare the asset for its intended use have commenced. The capitalization of borrowing costs ceases when the asset under acquisition or construction becomes ready for its intended use, the borrowing costs incurred thereafter are recognized in profit or loss for the current period. Capitalization of borrowing costs is suspended during extended periods in which the acquisition or construction of a fixed asset is interrupted abnormally and the interruption lasts for more than 3 months, until the acquisition or construction is resumed.

The specific borrowings satisfying the requirements of capitalization constructing or production of any qualifying assets are recognized as interest expenses incurred for specific borrowings against interest receivables incurred for unused loan or investment income/loss incurred for temporary investment. On the other hand, the common borrowings satisfying the requirements of capitalization applies the value, which is equal to weighted average of excess assets payout between cumulative assets payout and assets payout of specific borrowings multiplied by capitalization rate of the common borrowings, to calculate the exact value of capitalized interest of the common

borrowings. The capitalization rate depends upon the weighted average rate of the common borrowings. Nevertheless, the total amount of capitalization should not exceed aggregate interest expenses of current borrowings.

(17) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred, and subsequently stated at amortized costs using the effective interest method. Borrowings that will be repaid within 12 months (12 months included) after the balance sheet date are classified as the short-term borrowings, and the others are the long-term borrowings.

(18) Employee benefits

Employee benefits mainly include wages or salaries, bonuses, allowances and subsidies, staff welfare, social security contributions, housing funds, labor union funds, employee education funds and other expenditures incurred in exchange for service rendered by employees.

Employee benefits are recognized as a liability in the accounting period in which an employee has rendered service, and as costs of assets or expenses to whichever the employee service is attributable.

(19) Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are calculated and recognized based on the differences arising between the tax base of assets and liabilities and their carrying amount (temporary differences). The deductible losses that can be carried forward to deduct the taxable profit in subsequent years in accordance with the tax law are regarded as the temporary difference and for which a deferred tax asset is recognized. A deferred tax liability is not recognized for a temporary difference arising from the initial recognition of goodwill. For the temporary differences resulting from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit (or deductible loss), the resulting deferred tax assets and deferred tax liabilities are not recognized. At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled.

Deferred tax assets are recognized for deductible temporary differences and deductible losses and tax credits to the extent that it is probable that the Group's future taxable profit will be available against which the deductible temporary differences,

deductible losses and tax credits can be utilized.

Deferred tax assets and deferred tax liabilities are recognized for temporary differences arising from investments in subsidiaries, associates, and interests in joint ventures, except where the Group is able to control the timing of the reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future.

(20) Revenue recognition

The amount of revenue is determined in accordance with the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, rebates, discounts and returns.

Revenue is recognized when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities as described below.

(a) Traffic revenues

Passenger, charter flight and cargo revenues are recognised as traffic revenues when the transportation services are provided. The value of sold but unused tickets is included in the current liabilities as sales in advance of carriage.

(b) Sale of goods

Sales of goods are recognized when the risk and rewards of the ownership of the products are transferred, usually occurrence with the timing when the Group has delivered products to the customers, and the Group cease to exercise the control and managing role over the products. The Group made the provision for products warranty granted to the customers based on the historical data.

(c) Other sales

Other sales mainly comprise commission and sales obtained from other related transportations that are recognized when they provide services.

(d) Use by others of enterprise assets

Interest income is recognized on a time-proportion basis using the effective interest method.

Lease income from an operating lease is recognized on a straight-line basis over the period of the lease.

(21) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

(22) Leases

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

(a) Lease payments

Lease payments under an operating lease are recognized on a straight-line basis over the period of the lease, and are either capitalized as part of the cost of another related assets, or charged as an expense for the current period.

(b) Financing lease

The difference between the present value of the minimum lease payments and the minimum lease payments is recognized as unrecognized finance charges, which shall be amortized using the effective interest rate method over the period of the lease. The balance that indicates the value of minimum lease payment against unrecognized expenses should be recorded as long-term payable.

(23) Profit distribution

Proposed profit distribution is recognized as a liability in the period in which it is approved by the Board of Directors.

(24) Merger of enterprises

The costs of merger from buying side and the net assets identified by the buyers within the merger should be fairly stated on the purchasing date. The excess between the costs of merger and the net assets obtained from the buyers within the merger is defined as goodwill; contrastingly, if the cost of merger is less than the net assets

obtained from the buyers, the difference should be recorded in the current profit or loss statement sheet.

The expenses in relation to the merger of enterprises should be recorded in enterprises mergerd cost.

(25) Preparation of consolidated financial statements

The scope of consolidated financial statements includes the Company and its subsidiaries.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. Significant Inter-company balances, transactions and unrealised gain on transactions between group companies are eliminated. The portion of a subsidiary's equity that is not attributable to the parent is treated as minority interest and presented separately within owners' equity in the consolidated balance sheet.

When preparing the consolidated financial statements, if the accounting policies and the accounting period of a subsidiary are different from those of the Company, the Company will make necessary adjustments to the financial statements of the subsidiary in accordance with the Company's accounting policies.

When preparing the consolidated financial statements, for a subsidiary acquired in a business combination involving enterprises not under common control, its financial statements are adjusted based on the fair value of identifiable net assets at the acquisition date; for a subsidiary acquired in a business combination involving enterprises under common control, the assets, liabilities, operating results and cash flows of the subsidiary are included in the consolidated financial statements from the beginning of the earliest period of the reporting period, as if the business combination had incurred at the beginning of the earliest period of the reporting period. In addition, the subsidiary's net profit earned before the acquisition date is separately presented in the consolidated income statement.

(26) The determination of the fair value of financial instruments

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. The fair value of a financial instrument for which the market is not active is determined by using a valuation technique. Valuation techniques include using recent market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same and discounted cash flow analysis. When a valuation

technique is used to establish the fair value of a financial instrument, the valuation technique is whenever possible incorporate factors that market participants would consider, and less relies on the Group's entity-specific factors.

(27) Critical accounting estimates and judgments

The Group continually evaluates critical estimates and key assumption based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Since the assumptions of future events and assessments are uncertain, these assumptions would lead significant adjustments to either the value of assets or book value during fiscal year.

Operating leased aircraft and engine maintenance costs

Operating leases aircraft and engine maintenance costs are assessed by flight hours and possibility in other maintenance costs and accrued in current profit/loss. The assessments principally depend upon the previous data of same or similar types of aircrafts and engines from last yea. Therefore, the accrued maintenance costs would have great impact on current profit/loss statements in light of the distinct assessments and judgements.

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5. Taxation

The types and rates of taxes applicable to the Group during the current year are set out below:

Type	Tax rate	Taxable basis
Enterprise income tax	15% and 33%	Taxable income
Value added tax ("VAT")	4%	Cost of purchase or financing leased aircraft
	17%	Taxable value added amount (Tax payable is calculated using the taxable sales amount multiplied by the effective tax rate less current period's deductible VAT input.)
Business tax	3% and 5%	Taxable turnover

The applicable enterprise income tax rate for the Company and the subsidiaries - Hainan Golden-Deer Aviation Sales Co. Ltd. ("Golden-Deer") and Hainan VIP Flight Service Co., Ltd. (VIP Flight Service) which are located in Special Economic Zone, is 15%. The other subsidiaries in mainland PRC are subject to 33% tax rate. The overseas subsidiaries are assessed under the governing tax jurisdiction.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law"), which is effective from 1 January 2008. According to new CIT Law, the Company, Golden Deer and VIP Flight Service will gradually change the Corporate Income Tax rate to 25% within coming five

years. Moreover, the applicable corporate income tax rate for the Company and the subsidiaries will be adjusted from 33% to 25% on 1 January 2008.

The applicable corporate tax rates of the Group for the main business income and handling charge income are 3% of main business income and handling charge income. In addition, the applicable corporate tax rate for other operation sales is 5% of other operation sales.

6. Subsidiaries

Mergers of non-identical control enterprises and other subsidiaries:

Name of Investee Company	Place of Registration	Registered Capital	Scope of Business	Share-holding Percent		% voting right held by the Company	
				Direct	Indirect	Direct	Indirect
Hainan Golden-Deer Aviation Sales Co., Ltd	Haikou	RMB 8,000,000	Transportation and chartered flight agency services	95%	-	95%	-
Hainan Airlines VIP Flight Service Co., Ltd.	Haikou	USD 1,020,408	Chartered flights agency services	51%	-	51%	-
China Xinhua Airlines Co., Ltd. (Xinhua Airlines")	Beijing	RMB 1,830,000,000	Approved air passenger and cargo transportation	60%	-	60%	-
Chang'an Airlines Co., Ltd. ("Chang'an airlines") (Note 8)	Xi'an	RMB 754,390,000	Air passenger and cargo transportation in Shanxi province and its surrounding provinces	87.35%	-	87.35%	-
Shanxi Airlines Co., Ltd. ("Shanxi Airlines")	Shanxi	RMB 320,000,000	Air passenger and cargo branch line transportation in Shanxi province and its surrounding provinces	43.26%	53.71%	43.26%	53.71%
Beijing Xinhua Air Catering Co., Ltd. ("Xinhua Airlines")	Beijing	RMB 120,000,000	Production and sale of pastry, food and beverage	-	51%	-	51%
Shanxi Chang'an Hainan Aviation Star Hotel Co., Ltd. ("Chang'an Star")	Xi'an	RMB 25,000,000	Hotel and catering, commodity, costume sales, typing and other office services.	-	80%	-	80%
Xi'an Aviation Real Estate Co., Ltd ("Xi'an Real Estate")	Xi'an	RMB 30,000,000	Development & Sale of real estate; scheme and management for industry & civil construction projects	-	80%	-	80%

7. Notes to consolidated financial statements

(1) Cash at bank and in hand

	31 December 2007	31 December 2006
Cash in hand	3,757	945
Cash at bank	7,437,045	8,255,226
Other cash balances	490,054	1,275,685
Total	7,930,856	9,531,856

Net monetary assets that are denominated in the foreign currency are shown as

follows:

	31 December 2007			31 December 2006		
	Original currency	Exchange Rate	RMB equivalent	Original currency	Exchange Rates	RMB equivalent
USD	2,338	7.3046	17,078	120,813	7.8087	943,392
KRW	2,025,922	0.0077	15,600	729,456	0.0083	6,054
EUR	697	10.6669	7,435	86	10.2665	883
JPY	62,370	0.0641	3,998	7,985	0.0656	524
HKD	669	0.9364	626	8,224	1.0047	8,263
			44,737			959,116

As at 31 December 2007 included 6,457,779 thousand Yuan of deposit that was deposited at the HNA Group Finance Co. Ltd. ("Finance Company") (Note 7(a)).

In 2004, the company was negotiated on "Financial Service Agreement" with Finance Company, which provided fund deposit and withdraws, lending service etc. All interest income or interest expenses will be calculated in accordance with the People's Bank of China interest ordinance

The amount of 120,000 thousand Yuan of fixed deposit was pledged by the Group to acquire short-term borrowing of 100,000 thousand Yuan (31 December 2006: 600,000 thousand Yuan). This fixed deposit is typically considered as the restricted deposit which is also described in Note (36)(d).

As at 31 December 2007, 370,054 thousand Yuan of saving was guaranteed as Notes payable deposit with amount of 835,696 thousand Yuan by the Company. This category of monetary assets is considered as the restricted deposit that is also described in Note (36)(d).

(2) Accounts receivable and other receivable

(a) Accounts receivable

	31 December 2006		31 December 2007	
Account receivable	672,613			501,922
		Current year additions	Current year reversal	
Less provision for bad debts	(24,394)	(13,669)	-	(38,063)
	648,219			463,859

The ageing of accounts receivable and related provisions for bad debts are analysed below:

	31 December 2007			31 December 2006		
	Amount	Percentage %	Provision for bad debts	Amount	Percentage %	Provision for bad debts
Within one year	433,693	86%	2,703	503,566	75%	-
1-2 years	28,296	6%	1,346	125,401	18%	1,965
2-3 years	7,394	2%	1,698	19,138	3%	1,913
More than 3 years	32,539	6%	32,316	24,508	4%	20,516
Total	501,922	100%	38,063	672,613	100%	24,394

Account receivable is analyzed by customer categories as follows:

	31 December 2007				31 December 2006			
	Amount	% of total balance	Provision for bad debts	Percentage %	Amount	% of total balance	Provision for bad debts	Percentage %
Receivables that are individually significant	427,459	85%	646	-	583,758	87%	1,335	-
Receivables not individually significant but with high risk in groups	32,252	7%	32,252	100%	21,365	3%	21,365	100%
Others	42,211	8%	5,165	12%	67,490	10%	1,694	3%
	501,922	100%	38,063	8%	672,613	100%	24,394	4%

As at 31 December 2007, no balances included in above accounts receivable are due to the shareholders of the Company who hold over 5% (including 5%) shares with voting right.

As at 31 December 2007, the aggregate amount of the Group's five largest accounts receivable balances was 403,372 thousand Yuan, being 80% of the total accounts receivable balances, all aged within one year. The balances primarily present fund proceeding from China BSP settlement center ("BSP"), which is on the other hand pledged as collateral for the long-term borrowing of 160,000 thousand Yuan (Note 20(a))

The accounts receivable balances aged over one year mainly include unsettled Notes and charter flight. In terms of the opinion of the board of directors of the Company, there is no recovery risk for receivables due from related parties and no provision should be considered.

The individually significant account receivable is mainly BSP receivable which involves no recovery risk and no provision according to the board of the Company. Nevertheless, they indicate that the individually significant accounts receivable aged over one year should consider provision for bad debts on the basis of appropriate risk judgment.

The board of the Company regards that accounts receivable without individually significant amount but with high risk in group aged more than three years should make full provision for bad debts in the view of the fact that this type of accounts receivable

has long time-period and high recovery risk.

Accounts receivable that are dominated in foreign currencies are shown below:

	31 December 2007			31 December 2006		
	Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rates	RMB equivalent
EUR	111	10.6669	1,184	167	10.2665	1,715
THB	6,306	0.2168	1,367	-	-	-
			2,551			1,715

(b) Other receivables

	31 December 2006		31 December 2007
Lease deposit of aircraft & engine	648,038		654,253
Reserve of aircraft&engine repair	306,281		376,032
Subscription of aircraft spare part	112,079		235,497
Receivable for sales of aircraft	308,412		-
Others	63,445		128,115
	1,438,255		1,393,897
		Current year additions	Current year reversal
Less Provision for bad debts	(115,623)	(10,157)	17,155
	1,322,632		1,285,272

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Other receivables and corresponding provision for bad debts are analyzed as follows:

	31 December 2007				31 December 2006			
	Amount	% of total balance	Provision for bad debts	Percentage %	Amount	% of total balance	Provision for bad debts	Percentage %
Within 1 year	505,368	36%	-	-	712,100	49%	7,446	1%
1-2 years	513,966	37%	8,048	2%	241,361	17%	3,346	1%
2-3 years	54,389	4%	379	1%	152,448	11%	6,627	4%
More than 3 years	320,174	23%	100,198	31%	332,346	23%	98,204	30%
	1,393,897	100%	108,625	8%	1,438,255	100%	115,623	8%

Other receivables are analysed by customer categories as follows:

	31 December 2007				31 December 2006			
	Amount	% of total balance	Provision for bad debts	Percentage %	Amount	% of total balance	Provision for bad debts	Percentage %
Receivables that are individually significant	1,233,077	88%	36,987	3%	1,296,914	90%	30,070	2%
Receivables not individually significant but with high risk in groups	83,232	6%	65,789	79%	80,033	6%	62,590	78%
Others	77,588	6%	5,849	8%	61,308	4%	22,963	37%
	1,393,897	100%	108,625	8%	1,438,255	100%	115,623	8%

As at 31 December 2007, the amount of 359,366 thousand Yuan included in

above other receivables are due to the shareholders of the Company who hold over 5% (including 5%) shares with voting right (Note (7)(d)).

As at 31 December 2007, the aggregate amount of the Group's five largest other receivables balances were 791,356 thousand Yuan, being 57% of the total accounts receivable balances. Thereinto, the balance of aging during one to two years is 391,659 thousand Yuan, the balance of aging during two to three years is 33,879 thousand Yuan and the balance of aging over three years is 123,992 thousand Yuan.

The individually significant receivable balances mainly consist of aircraft and engine lease deposit, reserve of aircraft and engine repair and subscription of aircraft spare parts over which aging is one year. In terms of the natures, profound experienced judgment and assessment of debtors recognized by board of the Company, they represent that lease deposit of aircraft and engine lease does not exist recovery risk and thus there is no provision for bad debts. The remaining of other significant receivables is prudently considered as provision for bad debts on the regular basis of judgement and assessment.

The board of the Company regards that account receivable without individually significant amount but with high risk in group aging over three years should make particular provision for bad debts in accordance with typically specific.

The balances due from related parties included in other receivables refer to Note 11 (7) (d).

Other receivables that are dominated in foreign currency are shown below:

	31 December 2007			31 December 2006		
	Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rates	RMB equivalent
USD	154,933	7.3046	1,131,724	106,167	7.8087	829,026

1) Advance to suppliers

Aging	31 December 2007		31 December 2006	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	1,735,049	97%	60,097	54%
1-2 years	9,747	1%	2,535	2%
2-3 years	293	-	1,337	1%
More than 3 years	35,149	2%	48,370	43%
	1,780,238	100%	112,339	100%

The end year balances mainly include:

(i) In terms of the agreement, advance to related party – Haihang Airlines Hotel Holding Company Limited (“Haihang Hotel Holding”) is to purchase equities worth

829,280 thousand Yuan from Bohai International Trust Limited (formally known as Hebei Province International Trust Investment Limited) and advance to China Merchants Securities Co., Ltd. to purchase equities worth 595,450 thousand Yuan for the Group (Note 11(7)(b)). As at 31 December 2007, the transfer is still in process.

(ii) Advance to related party- Hainan Haihang Airlines Aviation Import & Export Co., Ltd (“Haihang Import & Export”) is 200,000 thousand Yuan of flight spare parts (Note 11(7)(b)).

As at 31 December 2007, the group did not have any balances which were due to parties having 5% or above shareholdings in the Company.

As at 31 December 2007, the advance to suppliers aged over one year are respectively 21,319 is training fees for CAAC and Guanghan, which are thousand Yuan and 14,013 thousand Yuan respectively.

The advance to suppliers that is denominated in the foreign currency is shown below:

	31 December 2007			31 December 2006		
	Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rates	RMB equivalent
USD	29,296	7.3046	213,996	3,087	7.8087	24,106
EUR	100	10.6669	1,067	100	10.2665	1,027
			215,063			25,133

(3) Inventories

	31 December 2006		31 December 2007	
Cost -				
Aircraft spare parts	271,518			242,636
Aviation on-board supplies	8,721			8,596
Low cost consumables	10,837			7,084
Others	10,941			8,720
	302,017			267,036
		Current year addition/ (reversal)	Current year write-off	
Less: provision for impairment-				
Aircraft spare parts	(5,115)	-	-	(5,115)
Aviation on-board supplies	(83)	-	-	(83)
	(5,198)	-	-	(5,198)
	296,819			261,838

(4) Long-term equity investments

	31 December 2007	31 December 2006
Associate (a)	131,952	254,867
Other long-term equity investments (b)	641,533	554,139

	773,485	809,006
Less: Provision for impairment of long-term equity investments (c)	(14,774)	(14,774)
	758,711	794,232

The group has no investment abroad and thus the long-term equity investments of the Group are not subject to restriction on conversion into cash or restriction on remittance of investment income.

(a) Associate

	Place of registration	Business Scope	Registered Capital	Share-holding percentage	% voting right held by the Company	31 December 2007		2007	
						Total capital	Total liability	Operating income	Net profit
Haihang Import & Export	Haikou	Flight equipment and spare parts trading	RMB 10 million Yuan	30%	30%	583,005	557,579	24,947	7,304
Hainan Xin Guo Hotel Limited ("Xin Guo Hotel")	Haikou	Hotel operation and management	RMB 100 million Yuan	40%	40%	257,817	156,812	31,707	2,931
Xin Da International Transportation Agency Limited ("Xin Da International")	Beijing	International transportation services	USD 0.8 million	49%	49%	17,205	11,599	1,831	342
Beijing Vision Advertising Co., Ltd. ("Beijing Vision")	Beijing	Advertising	RMB10 million Yuan	30%	30%	11,125	1,605	-	54
Yunnan Xiangpeng Aviation Company Limited ("Yunnan Xiangpeng")	Kunming	Local air transportation services	RMB 150 million Yuan	32.05%	32.05%	330,137	177,811	727,429	12,878
Hainan Hansha Technology Training Limited ("Hainan Hansha Training") (*)	Haikou	Aircraft maintenance training and consultation	USD1 million	50%	25%	8,748	4,829	3,035	(3,803)
Beijing Yanjing Hotel Co., Ltd. ("Yanjing Hotel")	Beijing	Hotel operation and management	RMB 112.689 million Yuan	35%	35%	741,896	631,091	-	-
						1,949,933	1,541,326	788,949	19,706

- According to rules of the Company, the Group occupies one forth of directorate of Hainan Hansha Training and hence the Group has 25% voting right held by

Investment in associates:

	Initial Investment	Addition/ (write-off)	Accumulated profit/ loss under equity method	31 December 2006	Net profit/ loss under equity method	Dividend receipts	Other equity movement	31 December 2007
Haihang Import & Export	3,000	-	4,707	7,707	2,191	(2,271)	-	7,627
Hainan Haihang Aircraft Maintenance Company Limited (Note 11(6)(q))	50,000	(19,519)	(1,815)	28,666	-	-	(28,666)	-

Yangtze River International Lease Company Limited ("Yangtze River Lease")	40,086	48,000	(1,829)	86,257	1,137	-	(87,394)	-
Xin Guo Hotel	15,000	25,000	(770)	39,230	1,172	-	-	40,402
Xinda International	3,312	-	(733)	2,579	168	-	-	2,747
Lucky Travel (Note 11 (6)(a))	22,000	-	(5,687)	16,313	(1,591)	-	(14,722)	-
Yanjing Hotel	11,270	39,530	(23,286)	27,514	-	-	-	27,514
Beijing Vision	3,000	-	(160)	2,840	16	-	-	2,856
Yunnan Xiangpeng	47,073	-	(3,312)	43,761	4,085	-	1,000	48,846
Hainan Hansa Training	-	-	-	-	(1,902)	-	3,862	1,960
	194,741	93,011	(32,885)	254,867	5,276	(2,271)	(125,920)	131,952

* In 2007, Yangtze River Lease's shareholder - Pacific American Corporation contributed additional capital of 227,955 thousand Yuan into Yangtze River Lease, and thus the equity interest held by the Group in Yangtze River Lease was reduced from 40% to 18.84%. Accordingly, Yangtze River Lease became other long-term equity investment from an associate of the Company.

(b) Other long-term equity investment

Investee Company	31 December 2006	Current year addition	Current year write-off	31 December 2007
Haikou Meilan	304,764	-	-	304,764
Finance Company	101,561	-	-	101,561
Yangtze River Lease (Note 7(5)(a))	-	87,394	-	87,394
Hainan Airlines Hotel (Group) Company	58,161	-	-	58,161
China Aviation Information System Company Limited	29,860	-	-	29,860
Grand China Airlines Express Company Limited	19,000	-	-	19,000
Yangtze River Express Company Limited ("Yangtze river Express")	10,000	-	-	10,000
Hainan Meilan Airport Company Limited	6,906	-	-	6,906
Sensual Finance Company Limited	5,000	-	-	5,000
Hainan Development Bank	5,000	-	-	5,000
Yunnan Shilin Travel Airlines Company Limited ("Yunnan Shilin")	8,000	-	-	8,000
Hainan Airlines Tourism Development Co., Ltd	3,274	-	-	3,274
Others	2,613	-	-	2,613
	554,139	87,394	-	641,533

(c) Provision for impairment of long-term equity investments

	31 December 2006	Current year addition	Current year write-off	31 December 2007
Other long-term equity investments				
Yunnan Shilin	8,000	-	-	8,000
Hainan Development Bank	5,000	-	-	5,000
Others	1,774	-	-	1,774

14,774 - - 14,774

After verified the financial status of the equity investments, the board of the Company regards that there is no impairment indication for the investments and thus no provision should be considered. (2006:Nil)

(5) Fixed assets

	Plant & Building	Aircraft & Engines	High-price rotatable spares	Vehicles	Equipment	Total
Cost						
31 December 2006	1,812,285	20,382,301	2,442,915	218,619	368,375	25,224,495
CIP transferred in(Note 7(7))	27,003	786,896	-	-	14,136	828,035
Additions (others)	101	395,658	388,504	24,926	16,795	825,984
Disposal	(215,709)	(674,737)	(409,083)	(12,627)	(8,451)	(1,320,607)
31 December 2007	1,623,680	20,890,118	2,422,336	230,918	390,855	25,557,907
Accumulated depreciation						
31 December 2006	244,800	3,716,761	1,152,389	118,103	171,683	5,403,736
Additions	42,532	1,041,450	181,117	17,580	36,930	1,319,609
Disposal	(50,558)	(333,635)	(162,771)	(7,011)	(5,481)	(559,456)
31 December 2007	236,774	4,424,576	1,170,735	128,672	203,132	6,163,889
Provision for impairment						
31 December 2006 and 31 December 2007	28	-	16,378	-	-	16,406
Net book value						
31 December 2007	1,386,878	16,465,542	1,235,223	102,246	187,723	19,377,612
31 December 2006	1,567,457	16,665,540	1,274,148	100,516	196,692	19,804,353

1) In 2007, the details for the Group sales fixed assets to related party refer to Note 11(6)(p).

Up to 31 December 2007, the details for fixed assets pledged as security for the Group's bank borrowing refer to the Note77(12)(a), Note7(20)(a).

Up to 31 December 2007, included in the net book value of the building is total of 247,599 thousand Yuan (cost of 284,582 thousand Yuan), which property certification have not been obtained, the application of property certification for these building is still in process. According to the legal opinion by the independent legal counsel of the Group, the board of the Company regards that there is no legal obstacles for the company to get the property certification for theses buildings.

In 2007, the depreciation charges of 1,256 thousand Yuan (2006: 1,237,438 thousand Yuan) has been expensed in direct operating cost, 5,998 thousand Yuan (2006: 5,003 thousand Yuan) in selling expense, 56,925 thousand Yuan (2006: 61,475

thousand Yuan) in administrative expenses.

Up to 31 December 2007, including the net book value of aircraft and engines are total of 6,232,178 thousand Yuan (cost of 7,375,732 thousand Yuan) held under finance leases.

Up to 31 December 2007, there are no fix assets holds to be disposed.

(6) Construction in progress

Items	Budget	31 December 2006	Current year additions	Transfer to fixed assets during the current year	Other reductions	31 December 2007	Source of Fund	Project investment Percentage
				(Note 7(6))				
Prepayment for aircraft & Engine	15,428,243	1,302,113	5,885,882	(780,741)	-	6,407,254	Loans	42%
Beijing Kiang Mansion (*)	338,820	301,430	-	-	(301,430)	-	Owned	-
Basement in Beijing International Airport (Phase I)	1,542,000	403,208	58,694	(202)	-	461,700	Loans	30%
Tenaha Basis (Phase III)	64,764	12,967	370	(118)	-	13,219	Owned	20%
Basement in Chang'an(Phase II)	17,183	6,523	7,197	(13,720)	-	-	Loans	100%
Basement of Chang'an airlines	349,038	6,603	87	-	-	6,690	Owned	2%
Others		16,090	22,416	(33,254)	-	5,252	Owned	-
Total		2,048,934	5,974,646	(828,035)	(301,430)	6,894,115		
Including: capitalized borrowing costs		93,047	266,046	(21,552)	-	337,541		
Prepayment for aircraft		80,397	240,483	(21,240)	-	299,640		
Basement in Beijing International Airport (Phase I)		12,650	25,251	-	-	37,901		
Basement in Chang'an (Phase II)		-	312	(312)	-	-		
Less: provision for impairment of construction in progress		(1,467)	(840)	-	-	(2,307)		
		2,047,467				6,891,808		

* In 2007, the Group transferred Beijing Kehang Mansion to related party, Hainan Airline Group Co., Ltd on the net book value in an amount of 301,430 thousand Yuan (cost of 301,430 thousand Yuan) and acquired all the transferring payment at 2007. (Note 11(6)(p)). (Note 101(6)(p)).

Borrowing costs have been capitalized in 2007 at an average interest rate of 6.63% (2006: 6.70 %).

(7) Intangible assets

	Original cost	31 December 2006	Current year additions	Current year amortization	31 December 2007	Accumulative amortization
Land use rights	339,026	288,889	4,592	(9,667)	283,814	(55,212)
Less: provision for impairment of intangible assets		(874)	-	-	(874)	
		288,015			282,940	

As at 31 December 2007, land use rights are pledged as collateral for the Group's borrowings refer to Note 7 (12)(a), Note 7 (20)(a).

Up to 31 December 2007, included in the net book value of the building is total of 24,332 thousand Yuan (cost of 27,085 thousand Yuan), which property certification have not been obtained, the application of property certification for these building is still in process. According to the legal opinion by the independent legal counsel of the Group, the board of the Company regards that there is no legal obstacles for the company to get the property certification for these buildings.

(8) Goodwill

The goodwill arose from acquisition the following subsidiaries:

	31 December 2006	Addition in current year (Note 8)	Reduction in current year	31 December 2007
Xinhua Airlines	68,109	-	-	68,109
Chang'an Airlines	9,878	25,249	-	35,127
Shanxi Airlines	99,033	-	-	99,033
	177,020	25,249	-	202,269
Less: provision for impairment (a)	(82,877)	-	-	(82,877)
	94,143	25,249	-	119,392

(a) Impairment

The amounts of goodwill allocated to subsidiaries are as follows:

	31 December 2007	31 December 2006
Xinhua Airlines	36,506	36,506
Chang'an Airlines	5,107	5,107
Shanxi Airlines	41,264	41,264
	82,877	82,877

The recoverable amount of asset groups and sets of asset groups is determined based on the estimation of cash flows according to a five-year budget approved by management. The cash flow beyond the five-year period is calculated based on the following estimated growth rates that do not exceed the long-term average growth rates of each product.

The main assumptions applied in calculation of discounted future cash flows are as follows:

	Xinhua Airlines	Chang'an Airlines	Shanxi Airlines
Gross margin	15%	15%	15%
Growth rates	8%	8%	8%
Discount rates	17%	16%	16%

Management determines the budgeted gross margin based on the past experience and the forecast on the market expansion. The weighted average growth rates applied are consistent with the estimated growth rates quoted in industry report. The discount rates applied by management are the pre-tax interest rates that can reflect the risks specific to the related asset groups and sets of asset groups. The above assumptions are used to assess the recoverable amount of each asset groups and sets of asset groups within the business segment.

(9) Long-term prepaid expense

	31 December 2007	31 December 2006
Pilots training fee	225,471	279,802
Rent of Tianzhu Basis	14,458	15,551
Use charge for Tianjin Aircraft Parking Area	7,169	7,550
Improvement to fixed assets held under operating leases	6,994	20,465
Supervision for reforming Aircraft	914	4,749
Others	3,130	13,883
	258,136	342,000

(10) Other long-term assets

	31 December 2007	31 December 2006
Deferred losses/gains under sales with lease backs transactions	301,746	355,654

Deferred losses or gains under sales with lease backs, which represents the difference between the selling price of the aircrafts and engines under sales with their carry amount. Deferred losses or gains arisen from operating leases are amortized evenly over the lease period. Deferred losses or gains arisen from finance leases are amortized evenly over the estimated useful lives.

7 Notes to consolidated financial statements (continued)

(11) borrowing

	31 December 2007	31 December 2006
Secured (a)		
- Pledge	439,831	370,000
- Impawn	1,637,191	1,890,771
- Guarantee	2,852,000	3,049,964
Unsecured (b)	36,523	106,291

Short-term financing bond(c)	2,500,000	541,688
	7,465,545	5,958,714

(a) As at 31 December 2007, secured short-term borrowings comprised:

Bank borrowings of 439,831 thousand Yuan (2006:370,000 thousand Yuan) secured with pledge by certain buildings with a net book value of RMB 273,675 thousand Yuan (original cost of 321,285 thousand Yuan) (Note 7 (6)) and the land use rights (original cost of RMB 61,343 thousand Yuan and net book value of 52,431 thousand Yuan) (Note 7 (8));

Among the short-term impawn borrowing:

1) 100,000 thousand Yuan were mortgaged by the company's fixed deposit which is in Shenzhen Ping'an Bank Caitian Branch in an amount of 50,000 thousand Yuan and the Chang'an airlines's fixed deposit which is in Finance company in an amount of 70,000 thousand Yuan (Note7(1));

2) 280,000 thousand Yuan were mortgaged by 130 million share of Yangtze River Express, 180 million share of Hainan Airlines Catering Company Limited ('HNA Catering'), 90 million share of Haihang Hotel Holding, 75 million share of Finance company held by Hainan Airline Group Co., Ltd ;

3) 100,000 thousand Yuan was mortgaged by 37.5% share of Finance company held by Hainan Airline Group Co., Ltd ;

4) 932,191 thousand Yuan was mortgaged by 538 million share of the company held by Grand China;

5) 40,000 thousand Yuan was mortgaged by 1.1897% share of the company held by Grand China;

6) 70,000 thousand Yuan was mortgaged by 5% and 12.5% share of Finance company held respectively by Haikou Meilan and Xinhua airlines;

7) 78,000 thousand Yuan are mortgaged together which include 60 million restricted tradable shares held by Hainan Industry and 10 million restricted tradable shares held by Grand China, and the corresponding interest of these shares.

8) 37,000 thousand Yuan was mortgage by the Hainan Airline Group (Hong Kong) Co., Ltd 's fixed deposit which is in the Bank of East Asia (China) with the amount of 5,000 thousand dollars.

Among the short-term guarantee borrowing:

1) 1,182,000 thousand Yuan (31 December 2006: 1,242,000 thousand Yuan) was

pledged by the company;

2) 690,000 thousand Yuan (31 December 2006: 703,000 thousand Yuan) was pledged by Haikou Meilan;

3) 920,000 thousand Yuan (31 December 2006: 1,104,964 thousand Yuan) was pledged by Hainan Airline Group Co., Ltd;

4) 20,000 thousand Yuan (31 December 2006: Nil) was pledged by Haihang Hotel Holding; and

5) 40,000 thousand Yuan (31 December 2006: Nil) was pledged by Yangtze River Investment Holding Co., Ltd.

The details of the above short-term borrowing which were pledged by related party refer to Note 11(6)(t).

(b) As at 31 December 2007, the unsecured short-term loan was borrowing from Finance company in December 2007 (31 December 2006: Nil)(Note 11 (7)(i)).

The weighted average interest rate of short-term borrowings in 2007 is 6.74% per annum (2006: X5.88%);

As at 31 December 2007, the USD short-term borrowings were 91,250 thousand dollars (31 December 2006:53,612 thousand dollars).

(c) Approved by China Bank “Yin Fa [2007] NO.271” Document, the Group published short-term financing bonds with the value 1200,000 thousand Yuan at 15 August 2007 and 1300,000 thousand Yuan 13 November 2007, the expired period are both one year, with the interest of 4.51% and 6.40%.

(12) Notes Payable

	31 December 2007	31 December 2006
Trade acceptance Notes	448,725	1,623,220
Bank acceptance Notes	672,907	335,486
	1,121,632	1,958,706

The Notes Payable above was expired in one year.

(13) Account Payable

	31 December 2007	31 December 2006
Payable of take-off and landing charges	867,934	854,798
Payable of aircraft & engine maintenance costs	550,647	471,927
Payable of fuel expense	545,620	805,609
Payable of aviation material	193,362	87,996
Payable of catering expenses	117,729	124,240
Payable of pilots training fee	105,063	77,784

Payable of daily material	88,270	75,091
Payable of renting aircraft	80,890	6,655
Payable of computer reservation	75,720	96,871
Payable of aircraft insurance premium	47,893	-
Payable of selling tickets	42,579	-
Payable of renting airport	21,584	5,279
Payable of aircrew	12,123	8,097
Others	205,087	287,937
	2,954,501	2,902,284

As at 31 December 2007, there is no payable due to shareholders over 5%(including 5%) interest of the Company.

As at 31 December 2007, the balance of aging over one year was 971,258 thousand Yuan (31 December 2006,518,751thousand Yuan),mainly included payables of aviation material, fuel oil fee, take-off and landing charges, catering expenses and maintenance costs, since the Group has the long-term operation relationship ,the balance hasn't been settlement .

The details for the related party balance included in account payable described in Note 11(7)(e).

Account payable that are dominated in foreign currencies are shown below:

	31 December 2007			31 December 2006		
	Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rates	RMB equivalent
USD	52,202 thousand dollars	7.3046	381,315	12,730 thousand dollars	7.8087	99,405

(14) Employee benefits payable

	31 December 2006	Current year additions	Current year reductions	31 December 2007
Wages and salaries, bonuses, allowances and subsidies	67,434	735,078	(700,347)	102,165
Staff welfare	-	40	(39)	1
Social security contributions	504	94,578	(88,623)	6,459
Including: Medical insurance	193	20,766	(18,829)	2,130
Basic pensions,	258	57,614	(54,420)	3,452
Enterprise pension fund	21	7,304	(6,983)	342
Unemployment insurance	21	7,096	(6,794)	323
Work injury insurance	11	1,798	(1,597)	212
Housing funds	378	2,772	(2,515)	635
Labor union funds and employee education funds	4,085	7,306	(333)	11,058
	72,401	839,774	(791,857)	120,318

(15) Taxes payable

	31 December 2007	31 December 2006
Enterprise income tax payable	9,924	(919)
Business tax payable	76,692	(24,381)
Custom duty payable & Value-added-tax payable	74,759	91,484
Individual income tax payable	5,442	1,586
City maintenance and construction tax payable	2,117	1,952
Housing property tax payable in advance	(15,038)	(3,869)
Others	5,188	3,635
	159,084	69,488

(16) Dividend payable

	31 December 2007	31 December 2006
Hainan Qixing	6,527	6,527
China Guangda Group Company Limited	6,164	6,164
Hainan Xiangyun Industry development Company Limited	2,259	2,259
Others	4,476	4,476
	19,426	19,426

The dividend hadn't pay mainly because it's long time since the declare for the dividend payment and the company above hadn't asked for the payment

(17) Other payable

	31 December 2007	31 December 2006
Payable of related party and recharge fee	498,656	126,106
Payable of civil aviation infrastructure fund	77,076	112,206
Airport construction fee	174,675	230,659
Payable of foregift and funds	118,548	166,570
Payable of bid benefits for ticket in aircraft	27,684	3,744
Payable of exclusive selling benefits	110,834	121,591
Payable of labor union funds	16,622	4,526
Payable of aviation material maintenance costs	37,028	-
Others	193,732	171,992
	1,254,855	937,394

As at 31 December 2007, other payable due to shareholders holding over 5%(including 5%) interest of the Company was 314,105 thousand Yuan(notes 11(7)(f)).

The payable of related party and recharge fee was stated in notes 101(6)(u) and notes 101(7)(f).

As at 31 December 2007, the balance of aging over one year was 643,573 thousand Yuan (31 December 2006: 915,219 thousand Yuan), mainly included the payable of foregift and others, the balance hadn't settled with the agency.

Other payable that are dominated in foreign currencies are shown below

	31 December 2007			31 December 2006		
	Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rates	RMB equivalent
USD	2,184 thousand dollars	7.3046	15,953	2,036 thousand dollars	7.8087	15,899

(18) Other current liability

	31 December 2007	31 December 2006
Sales in advance of carriage-domestic	630,563	634,517
Sales in advance of carriage-international	24,272	46,224
	654,835	680,741

Sales in advance of carriage-international that are dominated in foreign currencies are shown below:

	31 December 2007			31 December 2006		
	Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rates	RMB equivalent
KPW	581,641 thousand KPW	0.0077	4,478	2,714,507 thousand KPW	0.0083	22,530
JPY	4,628 thousand yen	0.0641	297	66,425 thousand yen	0.06563	4,359
EUR	60 thousand EUR	10.6669	640	310 thousand EUR	10.2665	3,183
			5,415			30,072

(19) Long-term borrowings

	31 December 2007	31 December 2006
Secured (a)		
- Guarantee	1,543,046	1,953,046
- Pledge	10,715,860	8,341,934
- Impawn	2,792,129	2,527,362
Unsecured (b)	4,160	4,160
Others	3,949	3,968
	15,059,144	12,830,470
Less: current portion of long-term borrowings		
- Pledge	(983,885)	(807,154)
- Impawn	(244,733)	(347,433)
- Guarantee	(290,000)	(410,000)
	(1,518,618)	(1,564,587)
	13,540,526	11,265,883

(a) As at 31 December 2007, long-term secured borrowing included:

Long-term bank secured borrowing:

- 1,053,046 thousand Yuan (31 December 2006: 1,463,046 thousand Yuan) was pledged by Haikou Meilan and Hainan Airline Group Co., Ltd;
- 490,000 thousand Yuan (31 December 2006: 490,000 thousand Yuan) was

pledged by the Company,

Long-term pledged bank borrowings of 10,715,860 thousand Yuan (2006: 8,341,934 thousand Yuan) secured with pledge by the Group's fixed assets with a net book value of 725,401 thousand Yuan (original cost of 840,380 thousand Yuan) (Note 7 (6)), aircraft & engine (original cost of 16,279,525 thousand Yuan and net book value 13,067,099 thousand Yuan (Note 7(6)) and intangible right (original cost of 205,358 thousand Yuan and net book value 205,358 thousand Yuan (Note 7(8)).

Long-term impawned bank borrowing:

1) 160,000 thousand Yuan were impawned by the Company's BSP benefits (Note (2)(a)):

2) 425,000 thousand Yuan were impawned by 500 million share of the Company held by Grand China;

3) 200,000 thousand Yuan were impawned by 50 million share of Xi'an Minsheng Group Company Limited (Xi'an Minsheng) held by Hainan Airline Group Co., Ltd;

4) 282,149 thousand Yuan were impawned by 16.48% share of Haikou Meilan held by the company;

5) 724,980 thousand Yuan were impawned by the 379.29 million share of Haikou Meilan, 95.44 million share of Chang'an airlines, 285 million share of Deer Jet Company Ltd, 170 million share of Yangtze river Express, 119.81 million share of Grand China held by Hainan Airline Group Co., Ltd, 38.56 million share of Shanghai Tianxiang Hotel Co., Ltd, 54 million share of Hainan Xinglong Spring Kangleyuan Co.Ltd, 37.20 million share of Zhejiang Huagang Hotel Co.Ltd, 59 million share of Sanya HNA holiday center Co.Ltd, 50.7 million share of Yanjing Hotel held by Hainan Airlines Hotel (Group) Company, 165.21 million share of Grand China held by Hainan Qixing, 405 million share of Haikou Meilan, 1098 million share of Xinhua airlines, 554.56 million share of Chang'an airlines, 285 million share of Shanxi airlines held by the Company.

The details of the above long-term borrowing which were pledged by related party refer to Note 11 (6)(t).

long-term borrowings by bank breakdown:

	31 December 2007	31 December 2006
China Development Bank	3,915,504	3,915,525
Industrial and Commercial Bank of China	3,058,994	3,556,531
The Export-Import Bank of China	3,018,379	783,099
China Construction Bank	325,000	-
Bank of China	789,446	708,640

Bank of Communications	304,857	540,286
China Everbright Bank	336,182	383,091
Shanghai Pudong Development Bank	626,032	110,000
China Citic Bank	200,000	200,000
China Minsheng Banking Co., Ltd	194,029	290,386
Nanyang Commercial Bank	73,046	-
Haikou Rural Credit Cooperatives Union	168,480	-
Bank of China, New York Branch	86,275	171,231
Private Export Funding Corporation	199,338	289,238
JP Morgan Chase Bank	236,833	272,705
Others	8,131	45,151
	13,540,526	11,265,883

long-term borrowings are repayable as follow:

	31 December 2007	31 December 2006
Between 1 to 2 years	2,096,625	1,453,064
Between 2 to 5 years	5,396,901	4,414,717
Over 5 years	6,047,000	5,398,102
	13,540,526	11,265,883

The weighted average interest rate of long-term borrowings in 2007 is 6.61% per annum (2006: 6.45%).

As at 31 December 2007, long-term borrowings included USD borrowing which amount was 1,006,036 thousand dollars (31 December 2006 747,061 thousand dollars).

(20) Long-term payable

	31 December 2007	31 December 2006
Long-term payable	2,398,851	2,316,562
Less: current portion of long-term payable	(554,289)	(344,427)
	1,844,562	1,972,135

Payable for finance lease represents the minimum lease payments for the Group's fixed assets held under finance leases (Note 9 (2)).

Long-term payables are repayable as follows:

	31 December 2007	31 December 2006
Between 1 to 2 years	446,714	234,483
Between 2 to 5 years	627,087	786,586
Over 5 years	770,761	951,066
	1,844,562	1,972,135

As at 31 December 2007, the USD balance included in the long-term payable was 187,482 thousand dollars (31 December 2006: 200,244 thousand dollars).

(21) Other non-current liabilities

	31 December 2007	31 December 2006
Payable of VAT & custom duty	85,956	107,296

Payable of VAT & custom duty were the Group made for the imported aircraft in 2007 and later.

(22) Deferred tax assets

	31 December 2007		31 December 2006	
	Deferred tax assets	Deductible temporary difference	Deferred tax assets	Deductible temporary difference
Provision for asset impairment	52,149	208,595	41,596	175,095

As disclosed in Note 5, the corporate income tax rate applicable to the Company from 1 January 2008 will be 25%, while the corporate income tax rate applicable to Xinhua airlines, Shanxi airlines and Chang'an airlines, the subsidiaries of the Company, from 1 January 2008 will be gradually increased from 33% to 25%. Since deferred tax assets and deferred tax liabilities are determined using the tax rates that are expected to apply when the related assets are realized or the related liabilities are settled, the carrying amount of deferred tax assets and deferred tax liabilities that have been recognized before the issuance of new CIT law and are expected to be utilized after 1 January 2008 were adjusted by the Company using 25% or the applicable tax rate. The difference related to transactions or events directly recognized in owners' equity amounting to RMB XXX is recorded in capital surplus, and the remaining difference of 3,752 thousand Yuan is included in income taxes for the current period (Note 7 (34)).

As at 31 December 2007, the Group did not recognise deferred tax assets of 98,058 thousand Yuan (2006: 899,836 thousand Yuan) in respect of deductible losses amounting to 24,515 thousand Yuan (2006: 196,773 thousand Yuan), among which, the amount of 79,618 thousand Yuan (2006: 811,232 thousand Yuan) can be carried forward against the taxable income in 2008, and the remaining 18,440 thousand Yuan (2006: 88,604 thousand Yuan) can be carried forward against the taxable income in 2009.

(23) Share Capital

	31 December 2007	31 December 2006
Shares with restriction on disposals-		
State and PRC legal person shares	-	16,576
Others	2,123,040	2,834,250
Subtotal	2,123,040	2,850,826
Shares without restriction on disposals-		

PRC public shares	1,222,490	494,704
Domestically listed foreign shares	184,723	184,723
Subtotal	1,407,213	679,427
Total	3,530,253	3,530,253

Details of limited sales refer to Note1.

(24) Capital surplus

	31 December 2006	Current year additions	Current year reductions	31 December 2007
Capital premium	3,823,150	-	-	3,823,150
Other capital surplus				
Long-term investment under equity method of accounting	2,608	-	(758)	1,850
Transfer from the balance of capital surplus recognized under previous accounting system	29,143	-	-	29,143
	3,854,901	-	(758)	3,854,143

Transfer from the balance of capital surplus recognized under previous accounting system included related party price differences and aviation material of donation.

(25) Surplus reserve

	31 December 2006	Current year additions	Current year utilized	31 December 2007
Reserve fund	169,098	-	-	169,098

According to the Articles of Association of the Company and the Company Law of PRC, the Company has to appropriate 10% of its net profit after making good of the deficit of prior years to the statutory surplus reserve, until where the reserve balance has reached 50% of the paid in share capital of the Company. With the approval obtained from the relevant government authorities, the statutory surplus reserve can be utilized to offset any deficit or to increase the share capital of the Company, provided that the remaining balance of the reserve, after such utilizations, does not fall below 25% of the issued share capital balance. During the year 2007, the Company didn't appropriate statutory surplus reserve out of its net profits (2006: Nil).

(26) Minority Interests

The minority interests contribute to the subsidiaries shown as follow:

	31 December 2007	31 December 2006
Xinhua Airlines	643,042	615,304
Chang'an Airlines	51,558	78,686
Shanxi Airlines	18,159	18,457
Golden-Deer	5,982	5,982
HNA VIP	(14,949)	(14,652)
Xinhua Air Catering	60,613	57,660
Chang'an Star	4,636	4,642

Xi'an Real Estate	5,987	5,987
	775,028	772,066

(27) Revenue and cost of sales

	2007	2006
Revenue	12,815,769	12,439,250
Other revenue	741,029	335,478
	13,556,798	12,774,728

(a) Revenue from main operations and cost of goods sold

	2007		2006	
	Revenue	Cost	Revenue	Cost
Passenger revenue	11,256,518	9,031,823	10,979,409	9,116,065
Cargo and Excessive weight of luggage revenue	354,056	286,556	527,624	440,950
Charter flight revenue	1,180,394	953,535	921,385	765,735
Catering revenue	24,801	13,820	10,832	6,518
	12,815,769	10,285,734	12,439,250	10,329,268

The sales to the Group's top five customers were amounting to 7,400,377 thousand Yuan, account for 55% of the Group's total sales (2006:55%).

In 2007, pursuant to an agreement entered in to between the Group and Hainan Baixiang Company Limited ("Hainan Baixiang"), the Group contracted out most of its domestic cargo and mail service to Hainan Baixiang at a price of 305,350 thousand Yuan (2006:485,350).

(b) Other revenue and cost

	2007		2006	
	Revenue	Cost	Revenue	Cost
Rental on lease of aircraft (Note 11(6)(h))	549,421	257,549	148,434	60,198
Rental on lease of pilots (Note 11(6)(i))	31,083	31,083	27,705	27,705
Ticket refund incomes	52,754	-	43,830	-
Ground service incomes	29,483	13,674	32,959	11,489
Advertisement incomes	25,000	-	25,000	-
Bid incomes	13,270	-	9,111	-
Training incomes	6,844	6,479	5,962	4,803
Agent handling incomes	4,231	-	5,394	-
Others	28,943	-	37,083	-
	741,029	308,785	335,478	104,195

(28) Tax and levies on operations

	2007	2006
Business tax	413,231	383,705
City maintenance and construction tax	10,008	10,337
Educational surcharge	4,994	5,180
Others	787	426
	429,020	399,648

(29) Finance cost-net

	2007	2006
Interest expenses	1,297,596	1,168,708
Less: interest income	(121,010)	(105,827)
Net exchange gains	(389,072)	(236,243)
Others	23,973	37,343
	811,487	863,981

The interests received from the related party refer to Note (6)(i).

The continuing re-valuation of RMB to USD has resulted in sharp decrease of the Company's debt denominated in USD, lending to the huge fluctuation of exchange gain.

(30) Impairment losses

	2007	2006
Provision for bad debts	7,306	(43,525)
Impairment losses for fixed assets/CIP(Note7(7))	840	(13,374)
Impairment losses for goodwill	-	17,663
	8,146	(39,236)

(31) Investment income

	2007	2006
Share of profit of investees under equity method of accounting	5,276	(8,831)
Profit/ cash dividends declared by investees under cost method of accounting	6,417	6,305
Income on disposal of long-term equity investments	1,523	1,725
Others	-	165
	13,216	(636)

(32) Non-operating income and expenses

(a) Non-operating income

	2007	2006
Government grant	43,129	47,648
Gain on disposal of fixed assets	3,720	6,779
Gain on transfer pilots(Notes101(6)(v))	80,000	65,455
Others	4,497	1,316
	131,346	121,198

Government grant mainly included the Group received the subsidy for adding flight course from the local government,

(b) Non-operating costs

	2007	2006
Loss on disposal of fixed assets	1,934	27,454
Others	3,448	1,873
	5,382	29,327

(33) Income tax expenses

	2007	2006
Current income tax	15,571	3,717
Deferred income tax	(10,553)	11,742
	5,018	15,459

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weight average tax rate applicable to profit of the consolidated entities as follows:

	2007	2006
Profit before income tax	713,344	198,182
Tax calculated at applicable tax rate	133,993	45,060
Effect of change in tax rate due to issuance of new CIT law (Note 7(23))	(3,752)	-
Expenses not deductible for tax purpose	31,693	85,575
Tax losses not recognised as deferred tax asset	(156,916)	(115,176)
Income tax expenses	5,018	15,459

(34) Earning per share

(a) Earnings per share - basic

Basic earning's per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

	2007	2006
Consolidated profit attributable to shareholders of the Company	651,387	166,755
Weighted average number of ordinary shares in issue	3,530,253	2,619,924
Basic earnings per share	0.18	0.06

(b) Earnings per share - diluted

The Company had not potential dilutive outstanding equity instruments issued as at 31 December 2007 (31 December 2006: Nil), accordingly the diluted earnings per share are the same as basic ones.

(35) Notes to consolidated cash flow statements

(a) Reconciliation from the net profit to the cash flows from operating activities

	2007	2006
Net profit	708,326	182,723
Add: Provisions for assets impairment	7,512	(87,656)
Depreciation of fixed assets (Note 7(6))	1,319,609	1,315,228
Amortization of intangible assets (Note 7(8))	9,667	9,555
Negative goodwill recognized in income statement (Note7(9))	-	17,663
Amortization of long-term prepaid expenses	123,370	91,484
Amortization of other long-term assets (Note 7(11))	45,713	41,344

Losses on disposal of fixed assets, intangible assets and other long-term assets	(1,786)	10,999
Finance expenses	573,762	1,126,419
Investment losses	(13,216)	636
Decrease in deferred tax assets (Note 7(34))	(10,553)	11,742
Increase in inventories	34,981	26,883
Increase in operating receivables	491,782	451,733
Increase in operating payables	(380,061)	1,801,120
Net cash flows from operating activities	2,909,106	4,999,873

(b) In 2007, there is no investing and financing activities that do not involve cash receipts and payments

(c) Net increase / (decrease) in cash and cash equivalents

	2007	2006
Cash at end of year	3,757	945
Less: cash at beginning of year	(945)	(1,557)
Add: cash equivalents at end of year	7,437,045	8,255,226
Less: cash equivalents at beginning of year	(8,255,226)	(5,402,037)
Net increase in cash and cash equivalents	(815,369)	2,852,577

(d) cash and cash equivalents

	31 December 2007	31 December 2006
Cash at bank and in hand (Note7 (1))		
- Cash in hand	3,757	945
- Cash in bank	7,437,045	8,255,226
- Other	490,054	1,275,685
	7,930,856	9,531,856
Less: restricted cash at bank	(490,054)	(1,275,685)
Cash and cash equivalents at end of year	7,440,802	8,256,171

(e) Cash paid relating to other operating activities

In the cash flow statement, cash paid relating to other operating activities comprises:

	2007	2006
Deposit for bills payable	356,459	253,428
Deposits for operating aircraft leases	303,947	482,480
Agency fees	251,881	290,088
Computer reservation expenses	123,748	96,379
Expenses for office representative	36,634	30,922
Advertising	27,521	10,119
Administrative	54,281	48,247
Rental	22,781	10,957
Others	221,719	299,236
	1,398,971	1,521,856

8. Acquisition of minority interests

In September 2007, the group acquired the 13.84% minority interests of Chang'an Airlines—one of its subsidiaries from Chang'an Airline Industry Co., Ltd with the cost of 79,984 thousand, after which the share hold of Chang'an Airlines directly and indirectly owned by the group arise from 73.51% to 87.35% . The difference between the purchase consideration and the fair value of the net assets acquired is as follows:

	Chang'an Airlines
Purchase consideration – paid by cash	79,984
Less: the share acquired of the fair value of the identifiable net assets	(54,735)
	25,249
Purchase consideration – paid by cash	79,984
Less: share of net assets of the subsidiary is calculated based on the % of equity granted on the transaction date	(53,977)
Less: Goodwill(*)	(25,249)
Adjusted Capital surplus	758

* As the purchase consideration is greater than the fair value of the identifiable net assets on the transaction date, the difference is recognized as goodwill. The difference between the purchase consideration and the share of net assets of the subsidiary is recognized as capital reserve.

9. Lease

(1) Financial leased assets

	Aircraft	Engines	High-price rotatable spares	Others	Total
Cost					
31 December 2007	6,878,859	290,560	205,071	1,242	7,375,732
31 December 2006	7,244,743	274,298	-	1,242	7,520,283
Accumulated depreciation					
31 December 2007	1,111,143	13,779	18,308	324	1,143,554
31 December 2006	1,294,750	57,906	-	207	1,352,863
Net book amount					
31 December 2007	5,767,716	276,781	186,763	918	6,232,178
31 December 2006	5,949,993	216,392	-	1,035	6,167,420

(2) Minimum lease payments

The minimum lease payments of future rental disclosures as Long-term payables are summarized as below:

	31 December 2007	31 December 2006
Within 1 year	633,764	485,087

Between 1 and 2 years	492,590	375,143
Between 2 and 3 years	313,028	421,704
Over 3 years	1,574,415	1,870,927
	3,013,797	3,152,861
Less: Unrecognised finance charge	(614,946)	(836,299)
	2,398,851	2,316,562

Detail information of minimum lease payments due to related parties disclosure in Note 11(7)(h).

10. Notes to the Company's financial statements

(1) Accounts receivable and other receivable

(a) Accounts receivable

	31 December 2006		31 December 2007	
Accounts receivable	992,401		414,791	
		Current year additions		Current year reversal
Less: Provision for bad debts	(1,126)	(8,184)	-	(9,310)
	991,275		405,481	

Accounts receivable and corresponding Provision for bad debts are analyzed as followed:

	31 December 2007				31 December 2006			
	Amount	% of total balance	Provision for bad debts	Percentage %	Amount	% of total balance	Provision for bad debts	Percentage %
Within 1 year	407,608	98%	8,184	2%	985,218	99%	-	-
1-2 years	-	-	-	-	131	-	-	-
2-3 years	131	-	-	-	-	-	-	-
More than 3 years	7,052	2%	1,126	16%	7,052	1%	1,126	16%
	414,791	100%	9,310	2%	992,401	100%	1,126	-

Accounts receivable are analyzed by customer categories as followed:

	31 December 2007				31 December 2006			
	Amount	% of total balance	Provision for bad debts	Percentage %	Amount	% of total balance	Provision for bad debts	Percentage %
Receivables that are individually significant	398,666	96%	-	-	535,891	54%	-	-
Receivables not individually significant but with high risk in groups	9,183	2%	9,183	100%	1,000	-	1,000	100%
Others	6,942	2%	127	2%	455,510	46%	126	-
	414,791	100%	9,310	2%	992,401	100%	1,126	-

The balances of aging over one year mainly include unsettled Notes and charter

flight. In terms of the opinion of the board of directors of the Company, they should consider provision for bad debts on the basis of appropriate risk judgment.

The individually significant account receivable aged within 3 months is mainly BSP receivable which involves no recovery risk and no provision according to the board of the Company.

(b) Other receivable

	31 December 2006			31 December 2007
Receivable of related party	56,306			586,156
Lease deposit of aircraft & engine	589,693			580,111
Reserve of aircraft & engine repair	136,292			185,818
Subscription of aircraft spare part	12,068			235,497
Others	21,422			18,385
	815,781			1,605,967
		Current year additions	Current year reversal	
Less: Provision for bad debts	(58,608)	-	8,453	(50,155)
	757,173			1,555,812

Other receivable and corresponding provision for bad debts were analyzed as followed:

	31 December 2007				31 December 2006			
	Amount	% of total balance	Provision for bad debts	Percentage %	Amount	% of total balance	Provision for bad debts	Percentage %
Within 1 year	886,465	55%	-	-	441,869	54%	-	-
1-2 years	435,080	27%	303	-	71,536	9%	1,881	3%
2-3 years	45,096	3%	46	-	88,766	11%	271	-
More than 3 years	239,326	15%	49,806	21%	213,610	26%	56,456	26%
	1,605,967	100%	50,155	3%	815,781	100%	58,608	7%

Other receivable were analyzed by customer categories as followed:

	31 December 2007				31 December 2006			
	Amount	% of total balance	Provision for bad debts	Percentage %	Amount	% of total balance	Provision for bad debts	Percentage %
Receivables that are individually significant	980,799	61%	20,003	2%	754,429	92%	18,272	2%
Receivables not individually significant but with high risk in groups	43,426	3%	25,983	60%	43,426	6%	25,983	60%
Others	581,742	36%	4,169	1%	17,926	2%	14,353	80%
	1,605,967	100%	50,155	3%	815,781	100%	58,608	7%

As at 31 December 2007, the aggregate amount of the Group's five largest other receivables balances were 1,219,853 thousand Yuan, being 76% of the total accounts receivable balances. Thereinto, the balance of aging within 1 year is 766,007 thousand

Yuan, the balance of aging during one to two years is 360,123 thousand Yuan, the balance of aging during two to three years is 13,477 thousand Yuan and the balance of aging over three years is 93,709 thousand Yuan.

The individually significant receivable balances mainly consist of aircraft and engine lease deposit, reserve of aircraft and engine repair and subscription of aircraft spare parts over which aging is one year. In terms of the natures, profound experienced judgment and assessment of debtors recognized by board of the Company, they represent that lease deposit of aircraft and engine lease does not exist recovery risk and thus there is no provision for bad debts. The remaining of other significant receivables is prudently considered as provision for bad debts on the regular basis of judgement and assessment.

The board of the Company regards that account receivable without individually significant amount but with high risk in group aging over three years should make particular provision for bad debts in accordance with typically specific.

As at 31 December 2007, the amount of 359,366 thousand Yuan included in above other receivables are due to the shareholders of the Company who hold over 5% (including 5%) shares with voting right (Note (7)(d)).

(2) Long-term equity investment

	31 December 2007	31 December 2006
Investment in Subsidiaries(a)	2,206,952	2,126,968
Investment in Associated Companies	49,990	128,270
Others	473,569	427,991
	2,730,511	2,683,229
Less: Provision for Impairment	(8,610)	(8,610)
	2,721,901	2,674,619

The group has no investment abroad and thus the long-term equity investments of the Group are not subject to restriction on conversion into cash or restriction on remittance of investment income.

(a) Subsidiaries

	Initial investment cost	Additional cost	31 December 2006	Current year additions	Current year write-off	31 December 2007
Xinhua Airlines	933,300	232,807	1,166,107	-	-	1,166,107
Chang'an airlines	200,000	364,434	564,434	79,984	-	644,418
Shanxi Airlines	285,000	99,497	384,497	-	-	384,497
Hainan Golden-Deer Aviation Sales Co., Ltd	7,600	-	7,600	-	-	7,600
Hainan Airlines VIP Flight Service Co., Ltd.	4,330	-	4,330	-	-	4,330

2,126,968 79,984 - 2,206,952

(3) Revenue and Cost of sales

	2007	2006
Revenue	8,000,442	6,800,099
Other revenue	415,874	156,664
	8,416,316	6,956,763

(a) Revenue from main operations and cost of goods sold

	2007		2006	
	Revenue	Cost	Revenue	Cost
Passenger revenue	7,100,123	5,711,857	6,053,048	5,124,080
Cargo and Excessive weight of luggage revenue	231,105	186,669	304,380	259,301
Charter flight revenue	669,214	540,540	442,671	377,111
	8,000,442	6,439,066	6,800,099	5,760,492

As at 31 December 2007, the aggregate amount of the company's five largest sales income balances were 4,505,272 thousand Yuan (2006: 3,838,590 thousand Yuan), being 54% of the total sales income balances (2006: 55%).

(b) Other revenue and cost

	2007		2006	
	Revenue	Cost	Revenue	Cost
Rental on lease of aircraft	252,449	121,389	-	-
Ticket refund incomes	32,914	-	24,739	-
Rental on lease of pilots	31,083	31,083	27,705	27,705
Ground service incomes	29,483	13,681	32,959	11,489
Advertisement incomes	25,000	-	25,000	-
Bid incomes	13,270	-	9,111	-
Training incomes	6,854	6,479	5,962	4,803
Agent handling incomes	2,452	-	2,979	-
Others	22,369	-	28,209	-
	415,874	172,632	156,664	43,997

(4) Investment income

	2007	2006
Share of profit of investees under equity method of accounting	1,453	679
Profit/ cash dividends declared by investees under cost method of accounting	2,431	4,793
Income on disposal of long-term equity investments	508	-
	4,392	5,472

11. Related Party Relationship and Transactions

(1) Parent companies and subsidiary company

Please refer to Notes VI for subsidiary companies' basic condition and information.

(2) General information of the parent company.

The parent company of group is Grand China Airlines Company located at Haikou. The nature of its transactions is transportation.

(3) Parent company's registered capital

	31 December 2006	Additions in this year	Reduction in this year	31 December 2007
Grand china airlines Co., Ltd.	RMB3,269,703,000	RMB420,092,600	-	RMB3,689,795,600

(4) The proportion of share stock and voting rights in the Company held by the parent company

	31 December 2006		31 December 2007	
	Share stock proportion	Voting rights proportion	Share stock proportion	Voting rights proportion
Grand china airlines Co., Ltd	48.62%	48.62%	48.62%	48.62%

(5) The nature of related parties without control relationship

Related parties	Relationship
Hainan Airlines Group Company	Shareholder of the company and Grand china airlines Co., Ltd
Hainan Meilan International Airport Co., Ltd	Shareholder of the company and both under HNA Group control
Changjinag Leasing Co., Ltd	Shareholder of the company and both Under HNA Group control
Shenhua Group Co., Ltd (Shenhua Group)	Shareholder of the company's subsidiary company
Beijing Yangjing Hotel	Associated company
Hainan Aviation Import & Export Trade Company Limited	Associated company
Yangtze River Real Estate Group (Yangtze River Real Estate)	Associated company
Yangtze Leasing Co., Ltd	Associated company
Lucky International Travel Services Limited	Associated company
Yunnan Xiangpeng Aviation Company Limited	Associated company
Grand China Airlines Express Company Limited	Associated company
Hainan Meilan Industry Co., Ltd (Hainan Meilan)	Associated company's subsidiary company

Related parties	Relationship with HNA
HNA Group Finance Co., Ltd	Under HNA Group control
Haihang Hotel(Group) Co., Ltd(Haihang Hotel)	Under HNA Group control
Hainan Haihang Airport Group Company Limited	Under HNA Group control
Hainan Airlines Catering Company Limited (Hainan Airlines Catering)	Under HNA Group control
Hainan Jiahui Investment Company Limited (Hainan Jiahui)	Under HNA Group control
Hainan Meilan Airport Company Limited (Meilan Airport)	Under HNA Group control
Haikou High-Tech Venture Capital Company Limited (Haikou High-Tech)	Under HNA Group control
Hainan Aviation Import&Export Trade Company Limited	Under HNA Group control
Deer Jet Co., Ltd	Under HNA Group control
Sanya Phoenix International Airport Company Limited	Under HNA Group control
Yangtze River express Company Limited	Under HNA Group control
Yangtze River Investment Holding Company Limited	Under HNA Group control
Hainan Yangpu Huanmei Company Limited(Yangpu Huanmei)	Under HNA Group control
Xi'an Mingsheng Real Estate Co., Ltd(Xi'an Mingsheng)	Under HNA Group control
Beijing Kehang Investment Company Limited(Beijing Kehang)	Under HNA Group control

Beijing Huoli Huanxiang Commercial Co., Ltd.(Huoli Huanxiang)	Under HNA Group control
Shenzhen Finance leasing Co., Ltd.(Shenzhen Finance Leasing)	Under HNA Group control
Hainan Yuhong Trade development Company Limited(Hainan Yuhong)	Under HNA Group control
Gansu Airport Group Co., Ltd(Gansu Airport)	Under HNA Group control
Eastern Airlines Co., Ltd(Eastern Airlines)	Under HNA Group control
Hainan Airline Catering Holding Co., Ltd(Catering Holding)	Under HNA Group control
Haihang Travel Holding	Under HNA Group control
Haihang Henghe Property Management Co., Ltd(Henghe Property Management)	Under HNA Group control
Hongkong Airlines Express(Hongkong Express)	Under HNA Group control
Hainan Tonghui Insurance Agency Co., Ltd(Hainan Tonghui)	Under HNA Group control
Hainan Pacific Oil Industry Co., Ltd(Hainan Pacific Oil)	Under HNA Group control
Haihang Hotel Holding	Under HNA Group control
Hongkong Airlines Co., Ltd	Under HNA Group control
Lucky Golden Deer Aviation Tourism Group(Lucky Golden Deer)	Under HNA Group control

(6) Related party transactions

(a) Price policy

Except purchases of fuel oil fee, payment of take-off and landing charges and transfer of pilots and other specified are according to governmental directional prices, pricing of sales to related parties, purchases from related party, providing services to related parties, and accepting services from related parties are based on treats agreed.

(b) Purchases of fuel oil fee

	2007 year	2006 year
Hainan Meiya	361,085	329,850
Hainan Pacific Oil	104,064	93,826
	465,149	423,676

In 2007 year, the group purchased fuel oil fee from related parties accounted for 11% of amount (2006 year: 10%)

(c) Purchase of aviation food

	2007	2006
Hainan Airline Catering Company Limited	32,523	29,536

In 2007 year, the group purchased aviation food from related parties accounted for 13% of amount.

(d) take-off and landing charges field rent and franchise

	2007	2006
Meilan Airport	75,036	73,899
Haikou Meilan	23,593	24,150
Sanya Phoenix Airport	27,289	25,252
Gansu Airport	-	17,793
	125,918	141,094

In 2007 year, the group payment of take-off and landing charges to related parties accounted for 10% of amount (2006 year: 10%).

(e) Import and Export Agency Fee

	2007	2006
Hainan Aviation Import & Export Trade Company Limited	21,179	12,651

This agency fee is made a price as some rate (0.3%~3%) of agency imports and exports goods.

In 2007 year, the group payment of agency fee to related parties accounted for 100% of amount (2006 year: 100%).

(f) Salary of key managers

	2007	2006
Salary of key managers	1,523	2,174

(g) Advertisement income

	2007	2006
Huoli huanxiang	25,000	25,000

In 2007 year, the group earned labour income from related parties accounted for 100% of amount (2006 year: 100%)

(h) Aircraft leasing income

	2007	2006
Grand china airlines express(i)	257,559	-
Yunnan xiangpeng airlines(ii)	138,278	74,881
Hong Kong Airlines	96,525	73,553
Eastern Airlines	41,320	-
Grand china airlines Co., Ltd	15,739	-
Total	549,421	148,434

This aircraft leasing income is made a price based on the cost of aircrafts (including depreciation, rent, imports & value-added tax and corresponding financing cost).

(i) In 2007 year, the group leased 29 Dornier airplanes to Grand China Airlines Express Co., Ltd. According to the price principles above, the amount of leasing Dornier aircrafts income is RMB 257,559 thousand (Note (28) (b)). This money has been taken back in this year.

(ii) In 2007 year, the group leased 3 Boeing 737 airplanes to Yunnan xiangpeng Airlines. According to the price principles above, the amount of leasing Boeing aircrafts income is RMB138,278 thousand. This money has been taken back in this year.

In 2007 year, the group earned leasing aircrafts leasing income from related parties

accounted for 100% of amount (2006 year: 100%).

(i) Leasing pilots income

	2007	2006
Deer Jet Airlines	20,043	17,105
Yangtze Rive Express	11,040	9,767
	31,083	26,872

This leasing pilots income is base on the labor cost of leasing pilots.

In 2007 year, the group earned leasing pilots income from related parties accounted for 100% of amount (2006 year: 97%).

(j) Interest income

	2007	2006
HNA Group Finance Co., Ltd (Note 7(30))	106,262	74,114

This interest income was calculated as national interest rate.

In 2007 year, the group earned saving interest income from related parties accounted for 88% of amount (2006 year: 70%).

(k) Charter flight revenue

	2007	2006
Haihang Travel Holding	47,659	-

In 2007, the group earned charter flight revenue from related parties accounted for 4% of amount (2006 year: 0 RMB).

(l) Related parties supplied capital to the group.

	2007	2006
Hainan Huijia	4,738,400	3,265,561
HNA Group	1,906,782	792,425
Changjiang Leasing	1,897,135	938,996
Haihang Imp&Exp	1,421,947	940,736
Grand China Express	591,668	-
Deer Jet Airlines	331,093	-
Yunnan Xiangpeng	168,173	17,690
Eastern Airlines	146,920	-
Yangtze River Leasing	115,201	502,000
Yangtze River Real Estate	47,476	-
Grand China Airlines	23,624	-
Haihang Travel Holding	8,160	-
Haikou Meilan	1,042	264,447
Hainan Yuhong	62	2,391,300
Yangtze Investment	-	449,209
Yangpu Huanmei	-	323,680
Haihang Hotel Holding	-	160,040

Xi'an Mingsheng	-	6,000
	11,397,683	10,052,084

The capital above supplied by related parties is used to purchase aviation materials, aviation on-board supplies or temporary financing. This capital is without mortgage and interest, and it will be compensated in short-term.

(m) The group paid back related parties.

	2007r	2006
Haihang Huijia	3,675,577	3,061,546
Haihang Hotel Holding	830,567	160,040
HNA Group	846,707	829,931
Changjiang Leasing	518,432	789,384
Haihang Imp&Exp	265,079	976,255
Grand China Express	197,666	-
Haikou Meilan	137,067	277,307
Yangtze River Leasing	88,587	502,000
Yunnan Xiangpeng	39,780	-
Grand China Airlines	10,148	-
Yangtze River Real Estate	5,000	-
Deer Jet Airlines	1,291	10,000
Hainan Yuhong	62	2,551,300
Yanjing Hotel	18	30,000
Xi'an Mingsheng	14	6,000
Yangtze Investment	-	473,278
total	6,615,995	9,667,041

The capital is paid back to related parties at promissory time when borrowing.

(n) Repayment made on behalf of shenhua Group

	2007	2006
Yangtze River Real Estate	47,476	-

In 2007, Yangtze River Real Estate settled the debts to the Group's subsidiary "Xinhua Airlines" on behalf of Shenhua Group.

(o) Lease fee

	2007	2006
Yangtze River Leasing	53,151	65,757
Changjiang Leasing	11,588	20,111
Shenzhen Finance Leasing	10,193	33,467
	74,932	119,335

This leasing fee is calculated as the agreed rate and term in financing agreement.

In 2007 year, the group paid leasing fee to related parties accounted for 26% of amount(2006 year:89%).

(p) Transfer Asset

	2007	2006
HNA Group Co., Ltd	462,648	-
Grand China Airlines Express	2,194	20,723
Haihang Hotel Holding	-	8,687
Haihang Hotel Group	-	6,600
	464,842	36,010

In 2007 year, the group transferred fixed assets to HNA Group Co., Ltd, including “Cheng Zhong Cheng” net value is 113,111 thousand, “Yinfu Flat” net value is 19,312 thousand, “Mapo Flat” net value is 22,123 thousand, other buildings net value is 6,672 thousand (Note 7(6)) and construction in progress “”Beijing Kehang Project” value is 301,430 thousand(Note 7(7)). The transfer price of fixed assets and construction in progress are 161,218 thousand and 301,430 thousand. The money has been taken back all in 2007 year.

In 2007 year, the group transferred assets to related parties accounted for 100% of amount (2006 year: 100%).

(q) Transfer stock

	2007	2006
HNA Group(i)	28,666	-
Haihang Travel Holding(ii)	16,245	-
	44,911	-

(i) In 2007 year, the group transferred 46% share stock of HNA Aircraft servicing to HNA Group Co., Ltd which value is 28,666 thousand (28,666 thousand per book value) . The transfer money has been taken back all in this year (Note 7 (5)(a)).

(ii) In this year, the group transferred 44% share stock of Lucky international travel services limited to Haihang Travel Holding, the transfer money has been taken back all in this year(Note 7(5)(a)).

In 2007 year, the group transfer share stock to related parties accounted for 100% of amount (2006 year: N/A).

(r) Recharge fee

	2007	2006
Grand china airlines express	307,062	-
Deer Jet Airlines	57,202	20,459
Yunnan Xiangpeng	32,597	3,135
Yangtze River Express	17,190	24,252
Hong Kong Airlines	13,463	604
Eastern Airlines	8,003	-
Hong Kong Express	492	-
Grand China Express	228	-

436,237

48,450

The money which is paid by the group for related parties is used to maintain aviation materials and aviation high-price rotatable spares.

In 2007 year, the group paid maintain fee for related parties accounted for 47% of amount (2006 year: 7%).

(s) The group supplied loan sponsorship for related parties.

	2007	2006
Haikou Meilan	-	503,000

In 2007 year, the group did not supply any loan sponsorship or other sponsorships for related parties.

(t) Related parties supplied loan sponsorship for the group

	2007	2006
Short term loan		
HNA Group	1,337,000	1,204,964
Haikou Meilan	760,000	1,225,771
Grand China Airlines	972,191	200,000
Yangtze Investment Holding	40,000	-
Haihang Hotel Holding	20,000	170,000
Haihang Industry	78,000	-
	3,207,191	2,800,735
Long term loan		
HNA Group	2,904,980	3,095,259
Haihang Meilan	355,195	302,103
Grand China Airlines	425,000	-
	3,685,175	3,397,362
	6,892,366	6,198,097

(u) Selling tickets for related parties

	2007	2006
Grand china airlines express	318,293	-
Grand china airlines Co., Ltd	40,588	-
	358,881	-

In 2007 year, the group sold tickets for related parties accounted for 2.8% of amount of ticket sales.

(v) Transfer pilots revenue

	2007	2006
Eastern Airlines	49,400	-
Yunnan Xiangpeng	19,800	51,015
Grand China Express	6,000	-

Deer Jet Airlines	4,800	-
Yangtze River Express	-	14,440
	80,000	65,455

The basic price for the transfer pilots is calculated in accordance with the correspondence of [2005]104 issued by CAAC. The amounts of the revenue from transferring pilots have been fully settled at the year end date.

In 2007, the group transferred pilots revenue for related parties accounted for 100% of amount.

(7) Related party balance

(a) Cash at bank and in hand

	31 December 2007	31 December 2006
HNA Finance (Notes 7(1))	6,457,779	7,409,325

As at 31 December 2007, the cash deposits into the related party's of the Group accounts for 81% of total balance of cash at bank and in hand. (As at 31 December 2006: 78%)

(b) Advance to Suppliers

	31 December 2007	31 December 2006
Haihang Hotel Holding (Notes 7(3))	829,280	-
HNA Group (Notes 7(3))	595,450	-
Haihang Imp & Exp (Notes 7(3))	200,000	-
Others	-	120
	1,624,730	120

(c) Interest receivables

	31 December 2007	31 December 2006
HNA Finance	73,118	68,091

As at 31 December 2007, the interest receivables from the related party accounts for 100% of total balance of Interest receivables. (As at 31 December 2006: 100%)

(d) Other Receivables

	31 December 2007	31 December 2006
Changjiang Leasing	359,366	359,389
Shenzhen Finance Leasing	24,000	24,000
Hainan Imp & Exp	6,385	6,385
Haikou High- Tech	5,000	5,000
Haihang Imp & Exp	-	8,588
Others	13,403	740
	408,154	404,102

The above mentioned balance due from Changjiang Leasing is the deposits for the finance lease of the aircrafts which is calculated based on 10% of the aircraft value.

At 31 December 2007, Changjiang Leasing holds more than 5% (including 5%) equity interest of the Company (Notes 7(2)(b)).

At 31 December 2007, the amounts due from related parties included in other receivables was accounted for 32% to the total balance of other receivables.(2006 31%).

(e) Account payable (Notes 7(14))

	31 December 2007	31 December 2006
Haihang Imp & Exp	116,571	-
Meilan Airport	106,220	62,723
Hainan Meiya	80,584	87,291
Sanya Phoenix Airport	64,851	41,167
Hainan Tonghui	47,893	-
Hong Kong Airlines	39,291	-
Deer Jet Airlines	32,878	105
Hong Kong Express	19,483	13,488
Hainan Airlines Catering	18,201	16,717
Henghe Property Management	6,382	-
Changjiang Leasing	-	169,633
Haikou Meilan	2,468	82,172
Haihang Hotel Group	-	10,481
Yangtze River Express	613	731
HNA Group	1,322	478
Others	13,964	8,880
	550,721	493,866

At 31 December 2007, the amounts due to related parties included in accounts payables was accounted for 19% to the total balance of accounts payables. (2006 17%).

The above balance of the amounts due to related parties is un-secured, interest free and repayable within one year.

(f) Other payables(Notes 7(18))

	31 December 2007	31 December 2006
Changjiang Leasing	305,630	-
Grand China Express	127,282	26,487
Deer Jet Airlines	6,171	17,923
Yangtze River Leasing	16,945	-
Hong Kong Express	11,886	-
Grand China Airlines	8,475	-
Sanya Phoenix Airport	6,438	6,438
Yangtze River Express	25	50,041
Yunnan Xiangpeng	279	17,690
HNA Group	44	732
Lucky International	-	271

Others	15,481	6,524
	498,656	126,106

At 31 December 2007, Changjiang Leasing and Grand China Air hold more than 5% (including 5%) equity interest of the Company, respectively, the total amounts due to them is 314,105 thousand (Notes 7(18)).

At 31 December 2007, the amounts due to related parties are accounted for 40% of the --

total balance of other payables. (2006: 13%).

The above amounts due to related parties are secured, with interest and repayable within one year.

(g) Current portion of long-term payables

	31 December 2007	31 December 2006
Changjiang Leasing	95,794	391,181
Yangtze River Leasing	54,381	10,644
	150,175	401,825

At 31 December 2007, current portion of amounts due to related parties accounted for 27% to the current portion of non-current liabilities. (2006: 21%).

(h) The minimum lease payments (Note9(b))

	31 December 2007	31 December 2006
Changjiang Leasing	999,053	973,776
Shenzhen Finance Leasing	238,316	-
Yangtze River Leasing	54,533	608
	1,291,902	974,384

As 31 December 2007, Related party balance of long-term payable accounted for 43% of the total ending balance.

(i) Short-term Loans

	31 December 2007	31 December 2006
HNA Group Finance Co., Ltd (Note7(12))	36,523	-

As 31 December 2007, Related party balance of short-term loans accounted for 0.4% of the total ending balance. (31 December 2006: None).

(j) Credits and Debts Counteraction Contract

As December 2007, According to the reformation contracts signed between the Group and Grand China Air Company, Hainan Jiahui Investment Co., Ltd, Deer Jet Co., Ltd and more than fifteen related parties to reform the payables and receivables. This reformation counteracted receivables of 179,552 thousand Yuan of the Group, payables

of 1,999,944 thousand Yuan. And the differences between the payables and receivables after counteraction are written into the account of Hainan Jiahui investment Co., Ltd.

(k) Commission payment

As December 2007, According to the commission payment contracts signed between Hainan Jiahui Investment Co., Ltd, Haihang Travel Holding, Hainan Airline Catering Holding Co., Ltd, Hainan Airlines Hotel(Group)Co., Ltd, the Group counteracted other receivables of 48,551 thousand Yuan of the companies listed above, other payables of 48,551 thousand Yuan of Grand China Air Company.

(l) Commission receivables

As December 2007, according to the commission receivables contracts signed between Shanxi Airlines and the Company, Shanxi Airlines counteracted other receivables of 91,424 thousand Yuan of Hong Kong Airlines, the Company counteracted other payables of 91,424 thousand Yuan of Hong Kong Airlines.

12. Commitment

(1) Capital commitments

As at 31 December 2007, the total amount of significant capital commitment been signed but not recognized in the financial statement is as follows:

	31 December 2007	31 December 2006
Purchase aircrafts	9,117,508	12,950,415
Purchase buildings Constructions and machines	23,940	693,800
	9,141,448	13,644,215

(2) Leases commitment

As at 31 December 2007, the rents payable under operating leases are as follows:

	31 December 2007	31 December 2006
Within 1 year	956,321	800,819
The second year	917,276	795,220
The third year	911,903	741,384
Over than 3 years	3,238,752	2,105,847
Total	6,024,252	4,443,270

13 First-time adoption of CAS

The reconciliation between the consolidated shareholders' funds at the beginning and ending of 2006 and the consolidated net profit for the year ended 31 December 2006 presented in accordance with the old Accounting Standards and Regulations, and that presented in accordance with CAS is as follows:

	1 January 2006 Consolidated owners' equity	2006 Consolidated net profit	31 December 2006 Consolidated owners' equity
Amount presented in accordance with the Previous Accounting Standards and System	2,712,976	181,602	6,990,594
Transferred from minority interests	750,660	16,369	772,702
Equity investment difference			
Including: Equity investment difference arising from business combination involving enterprises under common control	-	-	-
Credit balance of other equity investment difference accounted for using equity method of accounting	(19,543)	(3,506)	(23,049)
Goodwill			
Including: goodwill arising from business combination involving enterprises under common control	-	-	-
Impairment of goodwill arising from business combination involving enterprises not under common control	-	-	-
Financial assets at fair value through profit or loss and available-for-sale financial assets	-	-	-
Capitalized development costs	-	-	-
Income taxes			
Including: deferred tax assets	53,338	(11,742)	41,596
deferred tax liabilities	-	-	-
Amount presented in accordance with CAS	3,497,431	182,723	7,781,843

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The company has first-time adoption of CAS at 1 January 2007. Prior year adjustment of the shareholders' funds had been made for the difference between the shareholders' fund for the year ended 31 December 2006 as reported under the old accounting standard and under the new accounting standard. The consolidated financial statements have been prepared in accordance with the requirement under CAS 1. A reconciliation of the assets, liabilities and shareholders' funds under the old accounting standard to its equity report under new accounting standard at the date of transition to new standard are as follows:

Carries out the enterprise accountant rules on 1st Jan, 2007 for the first time, and reveal the shareholders' equity on the 1st Jan, 2007 adjusted according to the enterprise accountant rules in the united shareholders' equity difference adjust table of the 2006 report. During the working, with the request of the <Explanation No.1 of Enterprise Accountant Rules >, the company check the balance of assets, debt and ownership interest on the 1st execute day, and amend the above shareholders' equity on 1st Jan, 2007 as follows:

	Amount after adjusted 2007	A share 2006	Difference	Adjust reason
The amount under old accounting standard	6,990,594	6,990,594	-	

Transferred from minority interests	772,702	772,702	-	
Equity investment difference				
Including: Equity investment difference arising from business combination involving enterprises under common control	-	-	-	
Credit balance of other equity investment difference accounted for using equity method of accounting	(23,049)	-	(23,049)	(1)
Goodwill				
Including: goodwill arising from business combination involving enterprises under common control	-	-	-	
Impairment of goodwill arising from business combination involving enterprises not under common control	-	-	-	
Financial assets at fair value through profit or loss and available-for-sale financial assets				
Capitalized development costs	41,596	41,596	-	
Income taxes	-	-	-	
Including: deferred tax assets	7,781,843	7,804,892	(23,049)	

The reason for adjustment:

Prior year adjustment for the credit balance of the available-for-sale under equity method was adjusted to retained earnings brought forward in accordance with the CAS 1.

14 Net profit after extra ordinary gains and losses

	2007	2006
Net profit	708,326	182,723
Add: losses on disposal of non-current	(1,786)	18,690
Less: Other non-operating expenses-net	(124,178)	(110,561)
Tax effects on extraordinary gain and losses	11,620	16,316
Net profit before extraordinary gain to losses	593,982	107,168

The basis of preparation of net profit before extraordinary gains and losses reconciliation

According to the Q&A on Disclosure of Information by Public Companies No 1 – Extraordinary gains and losses, extraordinary gain and losses are the gain and losses being resulted from the transactions/events which are not incurred by the operation of the entity, or, though incurred by the operation, the nature, amounts or the frequency of such transactions/events will lead to a misleading presentation of the normal performance and profitability of the operation of the entity.

Supplemental information: Asset impairment

	31 December 2006	Current year additions	Current year reduction		Subtotal	31 December 2007
			Current year reverse	Current year write off		

1. Provision for bad debts	140,017	23,826	(16,520)	(635)	(6,671)	146,688
Of which: Trade receivable	24,394	13,669	-	-	13,669	38,063
Other receivable	115,623	10,157	(16,520)	(635)	(6,998)	108,625
2. Provision for inventory loss	5,198	-	-	-	-	5,198
3. Provision for long term investment loss	14,774	-	-	-	-	14,774
4. Provision for fixed asset impairment	16,406	-	-	-	-	16,406
5. Provision for fixed asset CIP impairment	1,467	840	-	-	-	2,307
6. Provision for intangible assets impairment	874	-	-	-	-	874
7. Provision for goodwill impairment	82,877	-	-	-	-	82,877
Total	261,613	24,666	(16,520)	(635)	(6,671)	269,124



XI. Documents for Reference

1. Accounting Statements with the signatures and seals of the Legal Representative, Chief Financial Officer and the person in charge of the accounting department.
2. Original of the Auditor's Report with seal of Certified Public Accountant and signatures of certified public accountants.
3. Original of all documents and announcements published in the presses designated by CSRC during year 2007.

Hainan Airlines Company Limited

March 25, 2008